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SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

WRITTEN COMMENTS

ON

H.R. 1233

THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

APRIL 4, 1989

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THE afa® CORPORATION

March 28, 1989

Congressman Sam Gibbons
Chairman, House Ways & Means Trade Subcommittee
Rayburn House Office Building
Washington, DC 25015

Dear Congressman Gibbons:

I am writing to enlist your support for amendment and subsequent passage of H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989 (commonly known as CBI II).

The AFA Corporation is a world leader in the manufacture of trigger sprayer products used in the packaging industry. As part of our effort to increase our competitiveness, AFA has established a significant presence in Central America. We established a facility in Costa Rica where we employ 325 people in direct labor assembly operations. This new location in Costa Rica constitutes an investment of $2,500,000 and serves to supplement our North Carolina operation.

It should be pointed out that in 1983, when Congress passed the original CBI legislation, the principal benefit to be provided the beneficiary countries was duty-free access to the U.S. market. However, as House Ways and Means Trade Subcommittee Chairman Sam Gibbons noted on March 2, 1989 in introducing H.R. 1233:

> (O)ur purpose in introducing this legislation now is to address concerns that the current program has not achieved the positive results that were intended. We need to build confidence in the region, create greater business certainty, and provide a long-term positive investment climate. Congressional Record, H. 506.

Due to a quirk in the current CBI law, we have been unable to qualify for duty-free treatment because we fail to satisfy the 35% quantitative value added criteria. Our operations in Costa Rica, though substantial in terms of jobs created and investment made, do not satisfy this requirement because we presently assemble U.S. components into the final article. As such, according to the U.S. Customs laws, we must pay duty on the value added and burden our staff with inordinate paper shuffling under what is called and "807" operation. Were our product a textile, then H.R. 1233 would correct this inequity.

Section 5 of the Caribbean Basin Economic Recovery Expansion Act of 1989, provides duty-free treatment to virtually all garments assembled in the Caribbean Basin from U.S. components. The theory is that this arrangement would be a "win-win" situation. U.S. fabric mills would increase their export sales and the Caribbean Basin countries would be able to perform the labor intensive operations and supplant the Far East as a significant provider of direct labor. Our strategic decision to establish a facility in Costa Rica should be treated no less favorably than the textile apparel industry.

Our investment in Central America is consistent with the underlying purpose of the Caribbean Basin Initiative; i.e., to provide meaningful job opportunities to a developing economy in this Hemisphere, thus providing a genuine model for stability through economic development, instead of political intervention. The problem is that, as currently drafted, H.R. 1233 fails to provide our product with the crucial benefit that Congress envisioned in 1983 when it enacted the CBI: duty-free access.

We believe that H.R. 1233 should be amended to provide U.S. investors with a minimum period in which they could begin to do business in the Caribbean Basin under duty-free circumstances regardless of satisfaction of the 35% test. This "phase-in" period of five (5) years would enable our company to become comfortable in Central America and establish relationships with local suppliers, thereby contributing further to economic expansion. With this amendment to H.R. 1233, we support the legislative package now being considered and would appreciate your active support in furthering this important matter.

We stand ready to work with you in achieving the amendment of H. R. 1233 and thank you for your consideration.

Sincerely yours,

THE AFA CORPORATION

Chuck Rivard

C. K. Rivard
President

THE AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO
JACK SHEINKMAN, PRESIDENT
STATEMENT ON H.R. 1233
"CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

TO THE

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC.

MARCH 31, 1989

The Amalgamated Clothing and Textile Workers Union sees that the losses and damage to the U.S. economy from this bill will far outweigh whatever potential benefits that would inure to the Caribbean Basin countries and therefore, opposes this legislation as it is currently written. Our members have borne the brunt of imports from the Caribbean and other developing countries and we see no reason why this burden of economic development around the world should not be shared on a society-wide basis rather than so strongly concentrated within the soft goods industry.

Our union says this with a degree of regret because we've been heavily involved in trying to encourage the economic development of the Caribbean region. Our union has very close relationships with the workers and unions in those countries and have conducted a number of educational and training programs with Caribbean unions. We've also worked closely with international organizations and the AFL-CIO in developing the trade union movement in those countries so that peoples standard of living can be increased dramatically as their economic development takes place. We've even gone further, sending numbers of sewing machines to be used in teaching new skills to the work force and create an experienced group of employees so as to encourage some movement of production to that area.

However, this legislation opens up flood gates of further imports from the Caribbean without doing anything to deal with the overall import problem our industry continues to be confronted with. 1988 was the first year in a decade where imports of textiles and apparel did not increase from the prior year. But now this legislation seeks to return to the unrelenting flow that continues to not just destroy employment in the industry but ultimately, reduce the overall wealth and GNP of the U.S. economy. Apparel imports from the Caribbean Basin Initiative countries have been increasing at over a 20% compound annual rate for the last several years. Our members fail to see why additional incentives are necessary to increase CBI access to our market when they seem to have no problem increasing at a rate far higher than has ever been contemplated by the Multi-fiber Arrangement or any other measure of market disruption.

The U.S. apparel industry has consistently been recognized as highly import sensitive and been exempt from the traditional free trade openings applied to most other industries. The rational for this has been reinerated many, many times and need not be repeated here other than in a simple summary: textile and apparel production world-wide is in a consistent state of overcapacity and wild fluxuations in market changes. The U.S.

workforce has far higher proportions of minority races, first generation immigrants and women (working as major income earners for their families), in this industry than in all other manufacturing industries. The jobs are primarily located in the inner city or isolated rural areas. Consequently, alternative job opportunities are not just low, but frequently non-existent. This industry is the classic entry level industry in our economy, for which few replacements have appeared.

The existence of the Multi-fiber Arrangement world-wide gives recognization to the need for a managed trade system in this industry. Congress has frequently confirmed the import sensitivity of this industry by exempting it from various trade enhancement legislation consistently for the last 30 years.

The Bureau of Labor Statistics in a study of apparel workers done a couple of years ago clearly shows that the consequence of further job deterioration in this industry is a net loss to the economy. At least one-half of the displaced workers studied never found alternative employment. One quarter of the remaining unemployed workers had to settle for jobs that pay even lower than in the apparel industry and one-quarter do find jobs at slightly higher pay scales than they were previously earning. The costs of this unemployment and underemployment, from lost domestic production and taxes, multiplied in local and regional economics, far outweigh any benefits from imports consumers may enjoy.

MAJOR PROBLEMS IN THIS LEGISLATION

While in the overall scheme of import allocation, we would encourage increased imports from the CBI countries, we cannot accept them as being a compounding on top of the imports received from the rest of the world. This proposed legislation will provide CBI countries complete open access to the U.S. market free from quota restraints irrespective of the source of the fabric utilized in the apparel produced. In addition, it provides a slight incentive for the use of American formed fabric in CBI apparel production through provision of duty free treatment.

If Congress believes that something must be done to enhance access of the CBI country exports to the U.S. market, it ought to do so in such a manner truly reflect not only of U.S. economic consequences, but of our other trade concerns around the world. We strongly urge that this legislation be changed so that two things happen simultaneously. First, a temporary freeze would be established on the quantity of garments entering from CBI beneficiary countries at their current levels. This freeze would be lifted and increased whenever the volume of import from other MFA countries is reduced in bilateral negotiations with them. We think the proposal to substitute CBI imports for imports from other nations is very desirable and that the U.S. Trade Representative should be directed to promote this shifting of quota access. But the total sum of imports must be reasonably constant. If political criteria are to be used in determining access to the U.S. market, let's utilize it in an efficient and effective manner such that both the U.S. economy and our long term concerns around the world are simultaneously accomplished.

Thus, we strongly urge that the legislation be changed to provide that as quota reductions are negotiated on a product by product basis under new agreements with non-Caribbean nations, that volume of imports be automatically transferred to the CBI countries. In addition, we would ask that the legislation state specifically that if this special access is provided to other non-CBI countries which the U.S. government wants to favor in terms of enhanced access to the United States, this likewise only would be allowed where there are parallel reductions in bilaterally negotiated MFA agreements with other countries. By changing the legislation in this manner, we remain consistent with all our international commitments and violate no provisions of the GATT.

An additional incentive to create this special access for the Caribbean by gerrmandering our quota regime around the world is due to the upcoming Uruguay tariff negotiations. If the full range of Congressionally mandated tariff reductions were to be implementated in the apparel and textile area and some movement away from the MFA is accepted, the special access being provided to the CBI countries by this legislation would, in effect, be wiped out. We do not understand how Congress on the one hand can try to be doing something for a particular area and, at the same time, encourage other international negotiations which result in destruction of what its other priority seems to be. We also do not understand this attempt to legislate substantially increased import increases at a time when there is a severe structural imbalance in the U.S. trade picture. Such efforts to increase imports are wholly inconsistent with attempts over recent years by U.S. government (and encouraged by Congress) to depreciate the U.S. dollar and enhance its U.S. trade competitiveness.

Our second major objection to this legislation deals with the fact that an enormous loophole is being created to entice fraud and transshipment that would undermine the entire purpose of this legislation. By providing a special quota free and largely duty free export platform in the CBI countries many other constrainted exporting nations will have a great incentive to set up some nominal operation in the Caribbean through which it can funnel major quantities of products that in fact are produced in their home country. The economic rewards are so great and the Customs penalties and chances of being apprehended so small that we anticipate an enormous increase in fraud and subterfuge. Without substantially increased powers for the Customs Service to do on-site inspection, with vastly increased penalties for fraudulent shipment to the U.S. from CBI countries, we see the potential benefits in terms of increased manufacturing to be initiated in the Caribbean being seriously undermined.

The third area of question is the entire procedure set up to delineate whether a particular fabric is available in the United States or in short supply. The entire advisory system and the petitioning process leaves full control in the hands of domestic textile producers. Why are U.S. domestic apparel producers unable to advise and petition the Secretary to delete or add new fabrics to this special list? It also provides no opportunity for trade unions to have a specific role in the determination of this list, for frequently the interests of the workers do not necessarily coincide with that of producers, whether textile or apparel, in determining the long term interest of production opportunities. Further, we frankly question whether this entire administrative procedure serves any worthwhile function in terms of making the administration of the program totally unwieldly. Probably it is best off to forget the whole process and simply continue the special preferences given American fabrics through quota access provisions rather than the duty free access provisions.

A fourth item has to do with the question of accumulation of the CBI countries as a separate entity when unfair trade practice cases are brought before the International Trade Commission. If this special CBI consideration is added to that given to Canada and Israel under our free trade agreements with those countries, we think the U.S. Congress is steadily moving down the road of a total perversion of our unfair trade practice statutes.

A final point must be mentioned. The consequences of creating substantially enhanced productive incentives in the CBI will completely undermine apparel production in Puerto Rico.

Despite the existence of Section 936 tax preferences in Puerto Rico and their own "807" production scheme, the balance of factors is being strongly shifted in favor of the Caribbean. Our union has thousands of apparel workers in Puerto Rico who will be in direct jeopardy of losing their jobs under this legislation. The economic environment in Puerto Rico is difficult enough already without this added burden being imposed upon them.

CONCLUSION

The Amalgamated Clothing and Textile Workers Union feels that the many problems created under this current version of the CBI expansion legislation make its passage undesirable at this time. We feel there is no economic policy justification for increasing imports into an industry already heavily impacted and facing the prospect of even greater imports in the future. Employment losses have continued to effect the workers whom we represent and certainly a significant portion of that can be attributed directly to increased imports from the CBI countries over the last several years. If the Congress seeks to provide enhanced economic development opportunities for the CBI countries, sacrifices needed should be spread uniformly through the U.S. economy and not concentrated in just a few sectors.

We agree that the overall global quota situation should be realignated such as to enhance access to the Caribbean countries, but at the expense of other major exporting countries who no longer need preferential competitive access to the U.S. market. This bill creates inducements for fraud and subterfuge that will add to the loss of additional thousands of U.S. jobs, with no consequent benefit to the CBI countries. And finally, the inconsistences with other U.S. trade policies and programs are such that complete rethinking ought to be done in regard to how the intergration of our overall international trade policy fits together.

In our presentation next week to the International Trade Commission we will show that in just five major areas of men's and boys' apparel, tariff reductions under the Uruguary round negotiations will led to a direct loss of 46,600 jobs. To add this lost production on top of the job loss surely to result from this CBI legislation - to people in our nation for whom the fewest alternative employment opportunities exist - seems to us a real perversion of general social goals that have been a consensus in the U.S. over the last century. The net result and the cumulative effect will be a deline in the total welfare of the country, and the consignment of thousands of decently employed to become part of the working poor or permanent poverty classes. We urge the Committee to rethink the various proposals in giving enhanced economic opportunities to the Caribbean Basin countries and our union stands ready to help in that process.

STATEMENT OF THE
AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, AFL-CIO

JACK SHEINKMAN, PRESIDENT

I. INTRODUCTION

The membership of the Amalgamated Clothing and Textile Workers Union (ACTWU), AFL-CIO, totals approximately 280,000 workers who produce men's and boys' apparel, as well as footwear, leather wearing apparel and work gloves. We share common concerns about section 5(b) of H.R. 1233 with the leather-related organizations listed below for whom similar statements are being submitted.

- Footwear Industries of America, Inc.
- International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO
- Luggage and Leather Goods Manufacturers of America, Inc.
- Rubber and Plastic Footwear Manufacturers Association
- United Food and Commercial Workers International Union, AFL-CIO
- Work Glove Manufacturers Association

ACTWU opposes Section 5(b) of H.R. 1233, which would establish a general tariff-rate (duty-free) quota for leather-related exempt products up to a 5 percent cap of total U.S. imports of the specific category of products. The provision has the effect of revoking the duty-free exemption this Subcommittee and Congress granted these industries in the original CBI legislation.

There is simply no justification for Congress to reverse itself on this issue. The collective health of these industries is far, far worse than when Congress first granted the duty-free exemption. At the time of the original exemption, Congress said that these industries "would not survive" if faced with duty-free import competition from the Caribbean. If that was the case then, the situation is doubly so today. Thus ACTWU does not understand why Congress is now considering legislation which, would in effect, open the floodgates on these products from the Caribbean.

Because of the exemption that was granted by the Congress in the original legislation, we believed that Congress recognized and accepted the plight of these industries, and, furthermore, had spoken definitively on the issue of our exemption. We also sought and received the same assurances from key Administration officials: It was the position of the last two U.S. Trade Representatives that the Administration would not seek legislation to eliminate the exemption for leather products. Over the past several years, both U.S. Trade Representatives Brock and Yeutter said that they had no intention of reopening the CBI legislation. They said that their efforts would instead be directed at effective implementation of the original Act. Former Trade Representative William Brock even stated that his aide had made that point "clear to all the Caribbean governments" as he traveled throughout the region. (See Attachment 1.) Thus a policy in effect for these industries that had been well articulated in the legislation, Committee Report, and pointedly made to Caribbean leaders by U.S. trade officials is now on the verge of being reversed. This is not only inconsistent, but unnecessary and unfair as is further detailed below. Moreover, workers in the U.S. footwear and other leather-related industries cannot be asked to carry the entire burden for policy decisions that the full country should bear.

II. CONGRESS EXEMPTED FOOTWEAR AND OTHER LEATHER-RELATED PRODUCTS FROM THE ORIGINAL CBI PROGRAM DUE TO IMPORT SENSITIVITY.

When Congress passed the original CBI legislation, it exempted certain products from the duty-free trade provisions of the legislation: textiles, textile products, footwear, and other leather-related products (wearing apparel, luggage, personal leather goods, work gloves, and handbags) because of these products' import sensitivity. The Ways and Means Committee Report (No. 97-958) on the CBI legislation explained the exemption for these products in the following way:

> First, while Caribbean Basin imports constitute a very small portion of U.S. market penetration at the present time, growth of some of these products has been substantial from certain Caribbean countries in the past two years and is likely to increase further in a very short period of time with the incentive of unlimited duty-free access to the U.S. market. Second, these industries, which have already been heavily impacted by increased imports, would not survive if faced with duty-free import competition from the Caribbean Basin. The relatively few jobs remaining in these industries should not be sacrificed, as they are located primarily in small towns or counties with very little manufacturing, high unemployment, and little likelihood of alternative employment opportunities in the foreseeable future.

III. NEW CBI BILL WILL EFFECTIVELY REVOKE LEATHER-RELATED PRODUCTS DUTY-FREE EXEMPTION WHILE PROVIDING CBI COUNTRIES A HUGE INCENTIVE TO INCREASE LEATHER-RELATED PRODUCT EXPORTS TO THE U.S.

In the last Congress, new CBI legislation was introduced to partially revoke the duty-free exemption for textiles/apparel and footwear and other leather-related products. Upon reflection and based on the responses received to the bill, it was revised substantially.

Unfortunately, from the standpoint of leather-related industries, this newly revised bill is much, much worse than the bill introduced in the last Congress. The practical effect of it would be to revoke the duty-free exemption for leather-related products under the CBI.

This is because the bill would allow duty-free treatment on all imports of leather-related products from the Caribbean up to a 5 percent cap of total world imports. Since imports of these leather-related products from the Caribbean are relatively small in comparison to world totals of these imports, the proposal would, in effect, be tantamount to giving duty-free treatment on almost all leather-related products imported into the U.S. from the Caribbean; it will also provide the region with extraordinary growth rates on these products as can be seen in Attachment 2 and below in Table 1.

Based on 1988 imports, the proposed legislation would allow duty free entry of leather-related articles up to the following quantities:

Table 1

Product	5 percent cap	% increase over current imports
Nonrubber Footwear:	45,200,000 pairs	2160%
Rubber Footwear:	9,325,000 pairs	866%
Leather Work Gloves:	307,383 dozen	7121%
Plastic & Rubber Work Gloves:	216,658 dozen	-73%
Flat goods:	2,131,412 units	86%
Luggage:	4,478,454 units	335%
Handbags:	6,898,557 units	7033%
Leather Apparel:	594,754 units	461% 1/

IV. THE TREATMENT OF LEATHER-RELATED PRODUCTS IN THE BILL CREATES AN ANOMALY.

Because the textile and apparel, footwear and the other leather-related industries are highly import sensitive, and because these industries are extremely susceptible to imports from developing countries (virtually all the products of these industries are statutorily exempt from the GSP program due to this susceptibility), they were given the same treatment with respect to their duties under the original CBI bill. The new bill would change this: Under the Committee bill, almost all leather-related products (both regular and 807) imported into the U.S. from the Caribbean would be given duty-free treatment and allowed staggering growth rates before the 5 percent of world total cap is reached.

The anomaly of the bill is that many of the products of the affected industries, e.g., textile work gloves, textile luggage, textile flat goods, textile handbags, textile footwear uppers, will be covered by the textile provisions of the bill, but the equally import-sensitive leather-related segments of these industries will be totally unprotected under the bill's provisions.

V. IMPORT LEVELS OF LEATHER-RELATED PRODUCTS HAVE RISEN DRAMATICALLY AND EMPLOYMENT HAS CONTINUED TO DECLINE IN THESE INDUSTRIES.

As explained in the Committee Report cited above, Congress exempted these products from the CBI legislation because of exceedingly high import levels in these industries

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1/ Based on 1987 imports.

-- levels that have risen dramatically since the time Congress voted to exempt leather-related products from the original CBI bill as can be seen below:

Table 2

Import Penetration Rates for Certain CBI Exempt Industries

	1982	1987
Nonrubber Footwear	58%	82%
Rubber Footwear	51%	63%
Luggage	34%	69%
Flat Goods	19%	46%
Handbags	81%	86%
Leather Apparel	56%	66%
Leather Work Gloves	54%	66%

Between 1982-87, 46,700 jobs were lost in the nonrubber footwear industry, 8,200 jobs were lost in rubber footwear, 2,400 jobs were lost in the luggage industry, and 11,600 jobs in the personal leather goods and handbag industries.

The U.S. workers who are being displaced are among the least educated, least skilled, least paid, and least employable of our labor pool. Many are minorities. Many are women who are holding second jobs or are heads of households. Many live in rural towns where there is no alternative employment. Many live in the inner cities where the only alternative to working in these industries is even lower-paying service sector jobs or public assistance.

VI. IMPORTS OF LEATHER-RELATED PRODUCTS AND FOOTWEAR UPPERS HAVE BEEN GROWING FROM THE CBI.

According to the Third Annual Report on the CBI issued by the USITC, U.S. imports of leather-related products not eligible for duty-free treatment under the CBI have been growing. U.S. imports of these products, i.e.,"certain leather, rubber and plastic gloves, luggage, handbags, and flat goods," increased by 47.5 percent from 1983-1987, from about $20 million to $30 million. CBI countries have also seen a phenomenal rise in the production of footwear components. In the case of footwear uppers, the most labor intensive part of the shoe, imports from the CBI rose from about $34 million in 1983 to $91 million in 1988, representing a 168 percent increase and now exceed 29 million pairs. Given the growth of imports of leather-related products and footwear uppers from the Caribbean, it is evident that duty-free treatment on footwear and leather-related products is not necessary to the expansion of these industries in the Caribbean.

VII. THE FOOTWEAR AND OTHER LEATHER-PRODUCTS INDUSTRIES OF PUERTO RICO WILL BE HURT BY SECTION 5(b) OF THE BILL.

The significant footwear and other leather products industries that exist today in Puerto Rico could be jeopardized if the 5 percent cap/duty-free quota proposed in Section 5(b) of the bill is enacted into law. A number of twin plant operations have been established between Puerto Rico and the Caribbean for the production of footwear and leather products. In the case of footwear, shoe uppers are sewn in plants in the Caribbean and finished off in Puerto Rico. However, there will be a strong incentive to make the entire shoe in the Caribbean if the duty is removed on finished footwear as is proposed in Section 5(b). The situation with other leather-related products is similar. Thus this provision can only serve to jeopardize the current

There is no MFA for leather-related products to help manage trade in these industries -- industries that are as import sensitive or even more so than textiles and apparel.

Moreover, no other major industrialized countries treat their basic industries in such a cavalier fashion. As an example, while the U.S. Congress is now contemplating legislation that will lay open still further its import-battered footwear and leather products' markets, the EC is considering placing Community-wide restrictions on shoe imports from Asian countries -- an expansion of restrictions that are already in effect for some Community members.

There are some in Congress who believe that the U.S. has not done enough to help the Region. They have targeted the leather products industries believing, apparently, that these industries still have something left to give. It should be abundantly clear by now that this is not the case. Therefore, we urge this Committee to abandon this ill-advised proposal, and consider other alternatives that do not require such a tremendous sacrifice from one particular sector of the U.S. economy.

ATTACHMENT 1

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

October 7, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 11109

Dear George:

Thank you for your recent letter regarding President Reagan's Caribbean Basin Initiative. I would like to reaffirm that the Administration has no plans to reopen the Caribbean Basin Economic Recovery Act. I agree with my predecessor, Secretary Brock, that we must concentrate our efforts on effective implementation of the Act so that the region may realize the full benefits to be gained from the broad range of products which are covered by the legislation.

I hope that my response will serve to reassure you as to the Administration's intentions in this regard.

Sincerely,

Clayton Yeutter

CY:scc

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

March 26, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 22209

Dear Mr. Langstaff:

You noted in your letter of March 4 that leaders of several Caribbean countries have urged that the Caribbean Basin Economic Recovery Act be amended to add textiles and apparel products and footwear to the list of items eligible for duty-free treatment under the Act.

I can assure you that the Administration has no plans to reopen the legislation. That point was made clear to all of the Caribbean governments by Grant Aldonas of my staff during his recent trip through the region. Our efforts will be directed rather at the effective implementation of the current law and its incentives to investors in the broad range of product categories presently covered by the Act.

Very truly yours,

WILLIAM E. BROCK

WEB:acl

ATTACHMENT 2

U.S. IMPORTS OF LEATHER RELATED EXEMPT PRODUCTS FROM
THE CARIBBEAN - 1988

Flat goods	units
Total - CBI Countries	1,147,461
World	42,628,242
5% of Total	2,131,412
% Increase	86%

Luggage	units
Total - CBI Countries	1,030,153
World	89,569,072
5% of Total	4,478,454
	335%

Handbags	units
Total - CBI Countries	96,716
World	137,971,146
5% of Total	6,898,557
% Increase	7,033%

Leather Apparel [1]	units
Total - CBI Countries	106,062
World	11,895,069
5% of Total	594,754
% Increase	461%

Work Gloves	doz. prs.
Rubber/Plastic	
Total - CBI Countries	803,327
World	4,333,157
5% of Total	216,658
% Increase	-73%

Work Gloves	doz. prs.
Leather	
Total - CBI Countries	4,257
World	6,147,658
5% of Total	307,383
% Increase	7,121%

Nonrubber Footwear	pairs
Total - CBI Countries	2,000,000
World	903,000,000
5% of Total	45,200,000
% Increase	2,160%

Rubber Footwear	pairs
Total - CBI Countries	965,000
World	186,500,000
5% of Total	9,325,000
% Increase	866%

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[1] Based on 1987 trade.

STATEMENT OF EUGENE J. MILOSH, PRESIDENT
AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

As President of the American Association of Exporters and Importers, I appreciate this opportunity to comment on H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989."

The American Association of Exporters and Importers ("AAEI") is a national association comprised of over 1200 U.S. firms engaged in international trade. Our membership includes importers and exporters of a broad range of products, as well as such service industries as customs brokers, freight forwarders, insurance carriers, banks and attorneys. Reform of the Caribbean Basin Initiative is of both general concern to AAEI as a product of U.S. trade policy and of specific interest to our over 300 members involved in textile and apparel trade.

AAEI has long been a leading voice for the liberalization of the international trading regime. AAEI believes that the United States' commitment to freer trade enhances the competitiveness of U.S. industry, provides U.S. consumers with greater choice and lower prices, and expands foreign market opportunities for U.S. exporters. In the recent past, AAEI has been an outspoken advocate for such trade expansionist measures as the reauthorization of the President's multilateral negotiating authority for the Uruguay Round, the easing of unilateral controls on U.S. exports, and the reduction of tariff and non-tariff barriers under the U.S.-Canada Free Trade Agreement.

Similarly, AAEI supports the principles of trade expansion underpinning the Caribbean Basin Economic Recovery Expansion Act of 1989, known as "CBI-II". AAEI is a long-standing proponent of the U.S. policy of strengthening the economies of developing countries by facilitating access to U.S. markets for their products. This policy not only promotes free enterprise in developing countries, but, in the longer term, creates opportunities for U.S. exports as the economies of the developing countries prosper and expand.

Generally, AAEI favors making permanent the current duty-free treatment for most imports from CBI countries, codifying the existing Guaranteed Access Level ("GAL") program, requiring the USTR to enter into negotiations with CBI countries requesting GALs, extending duty-free treatment to products entered under GALs, and allowing some form of duty free treatment to other currently excluded products. Assembly of textile products has proven well-suited to the economies and labor forces of CBI countries and should be promoted in ways that do not disadvantage other interested parties. Thus while AAEI does support the rather moderate expansion of textile trade proposed in H.R. 1233, AAEI would reconsider such support if the CBI were used as a vehicle to further restrict the overall U.S. textile program.

In holding with its general principles of freer trade, AAEI also supports the enlargement of sugar quotas through GATT-compatible methods. As with any product, AAEI would urge that the opportunities for trade with the U.S. be expanded in the aggregate rather than redistributed among specific trading partners.

AAEI is pleased to see the overwhelming bipartisan support for CBI-II and anticipates speedy action on the measure by the Trade Subcommittee. AAEI hopes, however, that it will have the opportunity to comment further on the specific provisions of CBI-II at a later point in the legislative process. Thank you for your consideration.

STATEMENT BY ANN OTTOSON KING, ESQ., ON BEHALF OF THE AMERICAN CORDAGE AND NETTING MANUFACTURERS AND THE CORDAGE INSTITUTE

Introduction

I. This position paper is submitted in response to Press Release #4 of the Subcommittee on of the Committee on Ways and Means of the U.S. House of Representatives which requested written comments on H.R. 1233 The "Caribbean Basin Economic Recovery Expansion Act of 1989". The American Cordage and Netting Manufacturers (ACNM), an incorporated non-profit association dedicated to a strong American Industry, and the Cordage Institute (CI), an association dedicated to quality products crafted with pride, represent the manufacturers of cordage and netting in the United States. ACNM and CI feel strongly that this industry is being severely economically affected by use of the CBERA provisions in a manner not intended by Congress at the time the legislation was enacted. Therefore, care should be taken in the administration of the program to ensure that U.S. industries are not negatively impacted contrary to the intentions of Congress.

Background

II. ACNM and CI's concerns in this regard are primarily focused on shipments of polypropylene baler or tying twine (classifiable under TSUS Item No. 316.55 or Harmonized Tariff Schedule No. 5607.41.30), which are entering the Customs Territory of the United States from Costs Rica at prices which do not provide for the conversion of the resin to twine. A history of the volume and customs value of these shipments is provided in Attachment 1.

So far as ACNM has been able to determine from industry sources and contacts with the Costa Rican Embassy in Washington, D.C., no polypropylene resin usable for this manufacture is produced in Costa Rica. The source of the resin in the Costa Rican exports is believed to be the United States. The only readily available published prices for exports of GP Extrusion polypropylene resin are ex-dock Houston prices provided in Attachment 2.

For polypropylene resin to be converted to tying or baler twine, it must at a minimum be mixed with dyes and stabilizers, heated, oriented, extruded, twisted and wound (see Attachment 3). If the resin is made in the U.S., Costa Rican duty and brokerage, if any, on the resin must be paid in addition to ocean freight and marine insurance twice (raw material and finished product) and any applicable inland freight. A very conservative estimate would be that the finished product price on return to a U.S. port should be $.92 per pound (see calculations in Attachment 4 and graph Attachment 5).

Relationship of Problem to CBERA Program

III. Historically, Costa Rica has not been a supplier of these products to the United States. It would seem to be an achievement of the CBERA program to have the sudden and growing shipments of these products. Two major problems arise in connection with these shipments, however: first, such goods have been shipped into the United States at prices barely above, and in some cases below, resin export prices and second, the classification has apparently been changed to avoid detection.

The first problem, that of the low price, is most clearly illustrated by the graph in Attachment 5: the finished product re-enters the United States at prices which clearly do not provide for the cost of production. Reference to Attachment 1 affirms that the imports began after the introduction of the CBERA program. Further reference to Attachment 1, together with Attachments 2 and 4, shows that entered values, if accurate, are not high enough to cover costs. It goes without saying that the CBERA program was not intended by Congress to encourage the importation of less-than-cost-of-production imports into the United States.

The second problem, that of misclassification, is part of an ongoing importation problem. Early in 1988 ACNM noticed the low-priced Costa Rican exports in the baler or tying twine category. The Association began to make inquiries through public agencies and the Costa Rican Embassy to determine the source of the resin used to manufacture these exports. While such research did not determine for certain that the resin source was the U.S., there was no evidence to the contrary. Indeed, the ability of U.S. shipping agents to quote without hesitation the cost of shipping resin from Houston to Costa Rica (and that of cordage returning to Houston) is a very strong indication that the resin is U.S.-sourced. What did happen was that imports of these products suddenly slowed, as documented in Attachment 1.

The slowing of volume was offset, however, by the great increase in imports classified in the "basket category" of Articles of Rubber or Plastic, NSPF: TSUS 774.58, from Costa Rica (see Attachments 6 and 7). This category has been a "traditional refuge" for low-priced imports of baler and tying twine. While there has been an ongoing classification problem between the two categories, the U.S. industry is working diligently with the U.S. Customs Service to resolve the problem. Meanwhile, the same merchandise is being imported and consistently sold in the marketplace at prices which do not allow for the recovery of costs associated with the production process. Clearly Congress did not intend to encourage such exporting practices.

IV. Relief Sought

ACNM and CI, because of problem imports encouraged by the CBERA program, feel very strongly that there should be a safeguard system as part of this program to ensure that imports encouraged by it are imports fairly traded under U.S. law and GATT rules. Importers should have to declare, under penalties of fraud, that imports are entered at a price greater than the cost of production and be able to provide, in confidence, back-up documents as proof when required by the U.S. Customs Service. The U.S. Customs Service should be directed to make this type of inquiry, through its fraud section, whenever presented with prima facie public record evidence.

Respectfully Submitted,

FOR

Ann Ottoson King
Counsel to
American Cordage & Netting Manufacturers

ATTACHMENT 1

CORDAGE OF MAN-MADE FIBERS UNDER 3/16 INCH IN DIAMETER
U.S. IMPORTS FROM COSTA RICA, 1986-1988
(316.55, TSUS)

YEAR	POUNDS	CUSTOMS VALUE	UNIT VALUE
1986[1]	295,717	$114,905	$0.389
1987	954,665	$453,510	$0.475
1988	599,495	$407,857	$0.680

Source: U.S. Department Commerce
Leighton and Regnery
March 1989

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[1] Imports from Costa Rica in this category initiated in October of 1986.

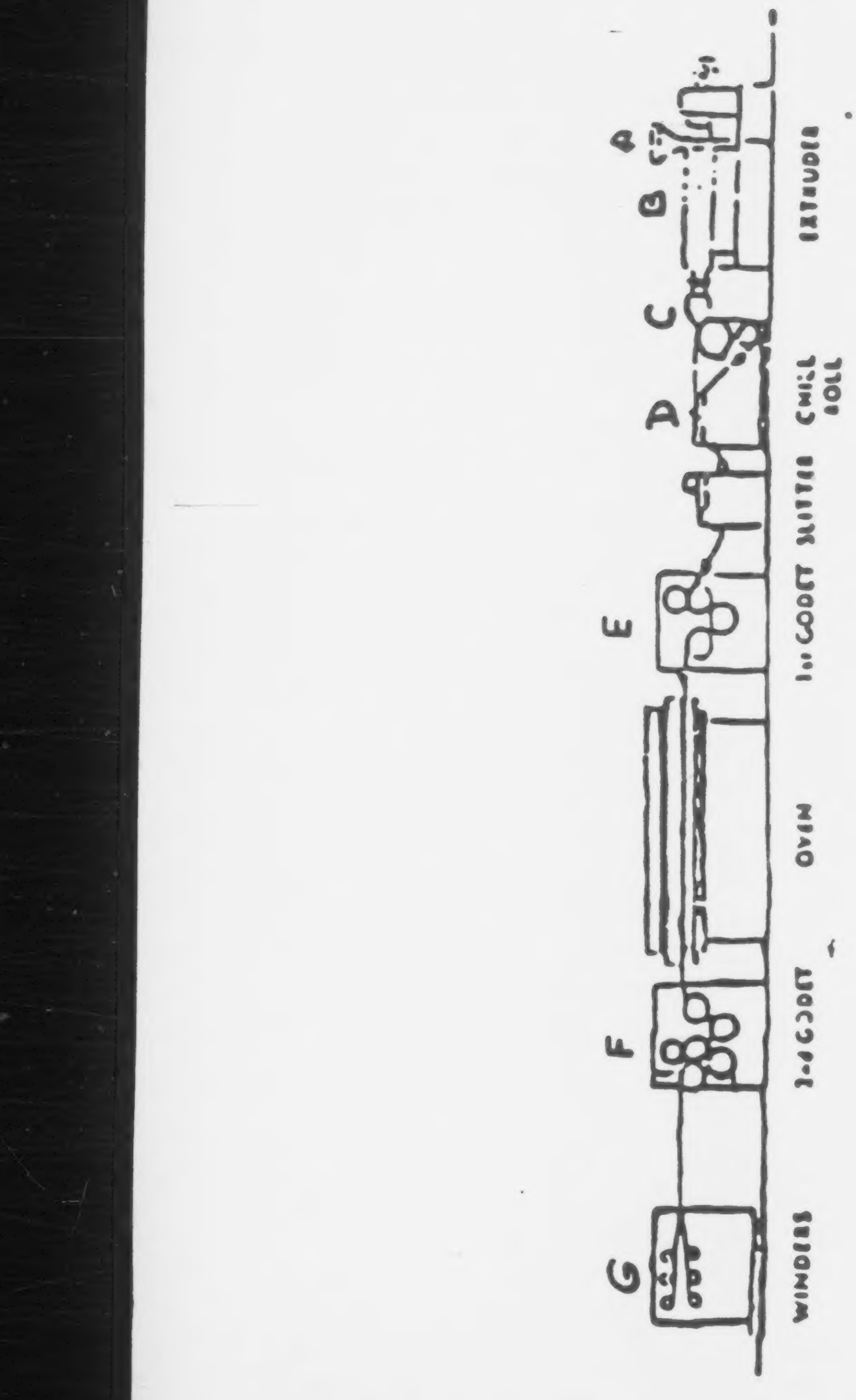
ATTACHMENT 2

G P EXTRUSION
POLYPROPYLENE RESIN PRICES
November 1987-October 1988
(figures represent Ex-Dock Houston prices in $/Lb.)

Month	Price
NOV 1987	$ 0.45 - 0.48
DEC	0.50
JAN 1988	0.53
FEB	0.56
MAR	0.56
APR	0.56
MAY	0.48 - 0.50
JUN	0.48 - 0.50
JUL	0.48 - 0.50
AUG	0.48 - 0.50
SEP	0.50 - 0.52
OCT	0.52 - 0.54
NOV	0.52 - 0.54
DEC	0.52 - 0.54

Source: The Journal of Commerce
Leighton and Regnery
March 1989

ATTACHMENT 3


A
B
C
D
E
F
G
EXTRUDER
CHILL ROLL
SLITTER
1st GODET
OVEN
2nd GODET
WINDERS

ATTACHMENT 4

Resin Price	$ .56
Cost to Deliver to Costa Rican Port *	.033
Additives	.02
Production Cost	.25
Cost to Deliver to U.S. Port **	.04
TOTAL	0.93

* Includes Duty & Brokerage

PRODUCTION COST

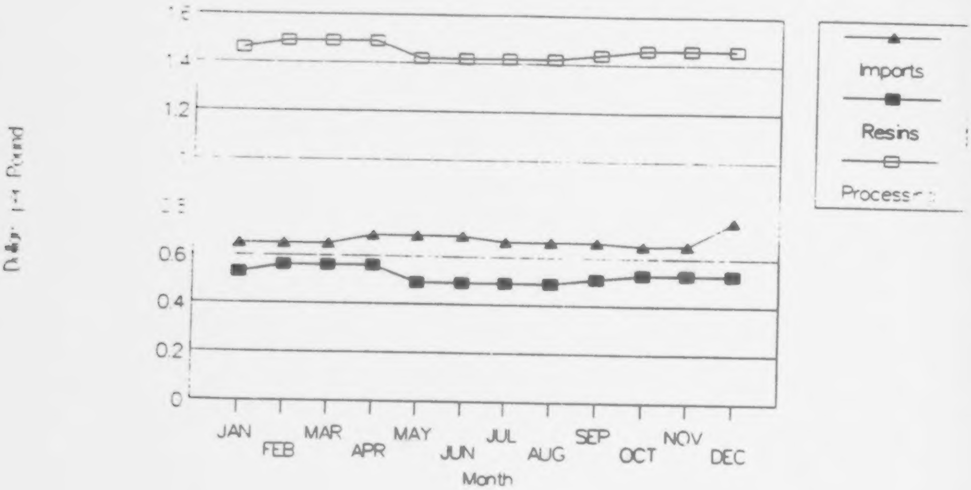
** 1988 direct/indirect manufacturers cost estimate (inc. depreciation, power, packaging, maintenance, etc.) does not include SG&A costs or profit.

NOTE: Resin at $.56/lb. = 62% final cost.

ATTACHMENT 5

U.S. Imports of Costa Rican Cordage

Cost Comparison of 1988 Shipments



Note: There were no imports of Costa Rican cordage (316.55, TSUS) in February, March, April, May, July, and September of 1988. Import unit values indicated for these months are quarterly averages.

Source: U.S. Department of Commerce
Leighton and Regnery
March 1989

ATTACHMENT 6

U.S. IMPORTS OF ARTICLES OF RUBBER OR PLASTIC, NSPF, FROM COSTA RICA, 1980-1988
(Figures Represent Customs Value)

Year	TSUS	Costa Rica	Total
1980	774.55	$ 28,436	$ 298,972,859
1981	774.55	189,206	346,388,618
1982	774.5590	496,911	391,470,932
1983	774.5595	563,615	481,510,458
1984	774.5595	664,240	651,373,411
1985	774.5595	629,813	763,988,294
1986	774.5585	363,200	491,794,850
1987	774.5585	381,972	556,012,924
1988	774.58	$4,019,396	$ 1,467,604,326

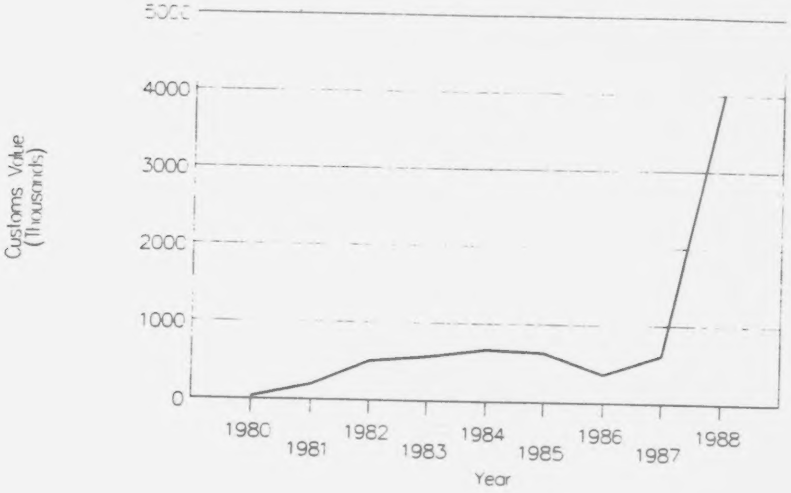
* The TSUS item numbers above cover the same "basket" category of various rubber and plastic products. Revisions in these TSUS item numbers have occurred only when products were deleted from the basket category.

Source: U.S. Department of Commerce
Leighton and Regnery
June 1988

ATTACHMENT 7

Articles of Plastic or Rubber, NSPF

U.S. Imports From Costa Rica, 1980–1988



Source: U.S. Department of Commerce
Leighton and Regnery
March 1989

COMMENTS OF THE AMERICAN PETROLEUM INSTITUTE ON H.R. 1233, THE "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

SUBMITTED FOR THE PRINTED RECORD
TO THE U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE
MARCH 31, 1989

The American Petroleum Institute (API) welcomes this opportunity to comment on HR 1233, a bill which would amend the Caribbean Basin Economic Recovery Act (CBERA). API is a trade association which represents over 200 companies involved in all aspects of the petroleum industry. Therefore, API has a direct interest in HR 1233 which would expand the scope of the CBERA to permit duty free imports of petroleum and petroleum products.

API commends the intent of HR 1233, to encourage economic growth in Caribbean Basin (CB) countries. However, it is not clear that providing duty free treatment for crude oil and petroleum products would accomplish this goal. Petroleum was exempted from duty free treatment when the CBERA became law for reasons which remain valid today.

The petroleum industry is more capital intensive than labor intensive. Increasing the export of refined products from CB countries would not result in a significant benefit to their employment rate. However, it could produce harmful consequences for the U.S. refining industry.

Existing U.S. duties on crude oil and petroleum product imports partially offset the additional costs imposed on domestic refineries as a result of statutory and regulatory requirements. For example: refineries in the Caribbean Basin can ship products to the United States on foreign tankers while U.S. refineries must ship on higher cost U.S. flag vessels; CB refineries are not subject to U.S. health, safety and environmental regulations; and U.S. refineries pay a duty on their imported crude while CB refineries do not. In addition, the recently signed U.S.-Canada Free Trade Agreement allows petroleum to enter the U.S. duty free from Canada, to the detriment of U.S. domestic refiners. Granting duty free status to CB petroleum will put domestically refined petroleum at a further competitive disadvantage.

API believes that petroleum should be excluded from the special category section of the proposed legislation granting duty free status. If this cannot be accomplished, then the scope of the proposed legislation should be narrowed, specifically Section 213A(b)(3)(C)(i) and Section 213A(b)(3)(C)(ii)(I). These sections describe the formula for determining national duty free quotas after general duty free quotas have been exceeded. As written, these formulas could allow for duty free treatment increasing from year to year at rates much higher than the proposed 5 percent allowed under general duty free quotas. The following example depicts how this could occur:

1990 (Base Year) Total CB exports of petroleum to U.S. equal:
100,000 barrels

1991 Total CB exports of petroleum to U.S. equal: 110,000 barrels
Total 1990 exports x 103% = amount entering U.S. duty free
100,000 x 103% = 103,000 barrels duty free in 1991

1992 Total CB exports of petroleum to U.S. equal: 130,000
Total 1991 exports x 103% = amount entering U.S. duty free
110,000 x 103% = 113,300 barrels duty free in 1992

1993 Total CB exports of petroleum to U.S. equal: 140,000
Total 1992 exports x 103% = amount entering U.S. duty free
130,000 x 103% = 133,900 barrels duty free in 1993

Conclusion: Relatively small annual increases in CB total exports can result in large percentage increases (in this case 30 percent between 1991 and 1993) in the amount of petroleum entering the U.S. duty free.

API recommends adding to the above referenced sections of the proposed legislation the following underlined words:

"(C) The term 'national duty-free quota', as applied to any beneficiary country, means the quantity of articles in a special category that is equal to 103 percent of the smaller (replacing the word larger) of --
"(i) the quantity of articles in that category that was produced in such country and exported to the United States and which entered duty-free during the base year; or
"(ii) the quantity of articles in that category that results from dividing--
"(I) the aggregate quantity of articles in that category that was produced in all beneficiary countries and exported to the United States and which entered duty-free during the base year, by
"(II) the number of beneficiary countries.

By so changing the proposed legislation, the percentage increases in annual duty free exports would be closer to those allowed using the proposed general duty free quota of five percent. The following example, using the same export numbers as the previous example but incorporating API's proposed changes, illustrates this point:

1990 (Base Year) Total CB exports of petroleum to the U.S. equal:
  100,000 barrels

1991 Total CB exports of petroleum to the U.S. equal: 110,000
  Total 1990 exports x 103% = amount entering U.S. duty-free
  100,000 x 103% = 103,000 barrels duty free in 1991

1992 Total CB exports of petroleum to the U.S. equal: 130,000
  Total duty free 1991 exports x 103% = amount entering U.S. duty free
  103,000 x 103% = 106,090 barrels duty free in 1992

1993 Total CB exports of petroleum to the U.S. equal: 130,000
  Total duty free 1992 exports x 103% = amount entering U.S. duty free
  106,090 x 103% = 109,272 barrels duty free in 1993

In this example, the increase in duty free exports is 6 percent between 1991 and 1993, which is much closer to the increases allowed under the proposed general duty free quota.

API's second recommendation for narrowing the scope of the proposed legislation is to specify that only crude oil indigenous to the CB and products refined wholly from such crude oil should be eligible for duty free shipment to the United States. As written, the proposed legislation could be interpreted as permitting large quantities of non-CB oil to be refined in a beneficiary country and enter the U.S. duty free. For example, if Saudi Arabian crude oil is refined in a beneficiary country, the resulting refined products might then be considered to have been "produced in" a beneficiary country and be entitled to duty free treatment. To avoid this unintended result, the legislation should make clear that "produced in" includes only those products which are manufactured, processed or refined from materials which are wholly grown or produced in a beneficiary country. With this clarification, only products which are refined from beneficiary country crude oil would be entitled to possible designation as a "special category" for purposes of duty free treatment.

In clarifying Congressional intent, the fungibility (substitutability) of crude oils and the interrelationship of crude oil production and refined product use in CB countries should also be considered. The following three scenarios depict the ambiguities of the proposed legislation and demonstrate the need for clarification:

Scenario 1: Country A produces 20,000 barrels of crude oil; imports 20,000 barrels of crude oil from Saudi Arabia; refines 40,000 barrels of product; uses 10,000 barrels of product; and exports 30,000 barrels of product to the United States.

Analysis: Without the clarification outlined above, all 30,000 barrels might enter duty free; with the clarification, up to 20,000 barrels would enter duty free (i.e., 20,000 barrels was refined from beneficiary country crude oil), but local consumption has not been considered. If it is ignored, then 20,000 barrels would enter duty free. If local production were first applied to local demand, then only excess production would be entitled to duty free treatment. If this is done, only 10,000 barrels of Country A's refined product would be entitled to duty free treatment (20,000 barrels refined from local crude oil - 10,000 barrels used in the local economy = excess of refined product from local crude oil). This clarifying approach would minimize adverse consequences on the U.S. refining sector.

Scenario 2: Country A produces 20,000 barrels of crude oil; imports 20,000 barrels of crude oil from Country B; refines 40,000 barrels of product; Country A uses 10,000 barrels of product; Country A exports 5,000 barrels of product to Country B for its domestic consumption; and the remaining 25,000 barrels are then exported to the U.S.

Analysis: As with Scenario 1, 10,000 barrels would enter duty free as having been "produced in" Country A and being in excess of Country A's consumption. The question then arises as to how to treat the product which is refined from a crude oil which is produced in another beneficiary country (i.e., Country B) and which is then exported to the U.S.

Scenario 3: Country A produces 20,000 barrels of crude oil; imports 20,000 barrels from beneficiary Country B; imports 20,000 barrels of crude oil from Saudi Arabia; refines 60,000 barrels of product; Country A uses 10,000 barrels of product; Country A exports 5,000 barrels of product to Country B for its domestic consumption; and the remaining 45,000 barrels are then exported to the U.S.

Analysis: Depending on the answers to Scenarios 1 and 2, a variety of answers are possible:

* All 45,000 barrels enter duty free if "produced in" encompasses products refined in a beneficiary country from non-CB crude oil.

* 40,000 barrels enter duty free if "produced in" means refined in a beneficiary country from crude oil from any beneficiary (i.e., A & B), country and local product consumption is ignored.

* 30,000 barrels enter duty free if "produced in " means only refined in Country A from crude oil from beneficiary countries (A & B), minus only Country A's domestic product consumption.

* 20,000 barrels enter duty free if "produced in" means only refined in Country A from Country A crude oil without subtracting local demand.

* 10,000 barrels enter duty free if "produced in " means only refined in Country A from Country A crude oil subtracting out Country A consumption.

The variety of results in this last hypothetical scenario depicts the urgent need to clarify the proposed legislation.

However, API believes that it would be simpler and more advisable to retain the current petroleum and petroleum product import exemption from duty free treatment. Removing the exemption would not provide substantial economic benefit to CB countries, whereas it would be detrimental to the U.S. domestic refining industry.

If you have any questions or would like additional information, please contact Ed Beck at 682-8418.

American Textile Manufacturers Institute, Inc.
1801 K Street, N.W., Suite 900, Washington, D.C. 20006

March 10, 1989

The Honorable Sam Gibbons
Chairman, Trade Subcommittee
Committee on Ways & Means
U.S. House of Representatives
1136 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

We have had an opportunity to review the Caribbean Basin legislation, H.R. 1233, in some detail and would like to offer some comments. We have also had an opportunity to discuss several of the provisions with your committee staff prior to the introduction of the bill. We are grateful for that opportunity and want to commend your staff for the concern that they have shown for problems which we raised during those meetings. Nonetheless, after examining the legislation, we have several serious problems with the bill which necessitate our having to oppose it in its present form.

One major problem which we have is the provision dealing with the use of foreign fabrics in 807-A. As drafted, this would create a situation which would be extremely damaging to the U.S. textile industry. It establishes a drawn-out, quasi-legalistic procedure and findings by the Department of Commerce which would create a major loophole in the 807-A requirement to use U.S.-formed fabric.

ATMI has no objection to preferential treatment for fabrics which are truly not manufactured in the United States. We do have major problems with criteria such as "critical shortages." This would create a gold mine for tariff manipulators and lawyers to specify fabric constructions for the express purpose of gaining a finding of "critical shortage." For example, a garment might be specified to contain five percent silk and ninety-five percent wool just in order to claim that it is not available in the United States. The addition of five percent silk does nothing to change the appearance, character or any other attribute of the fabric. It would be done merely to circumvent the legislative requirement and is an obvious subversion of the intent of the legislation. We believe that there are better ways to deal with

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Tel: 202/862-0500 Fax: 202/862-0570 Twx: 710-822-9489

this problem. We are discussing a different approach with the American Apparel Manufacturers Association and would like to make our collective views known to your staff on this subject.

Another major area of concern is the section which permits up to twenty-five percent of the value of the garment to contain foreign-made findings and trim. First of all, this means that essentially all findings and trim can be foreign-made on any 807-A garment because the value of such an item seldom, if ever, runs above twenty-five percent of the value of the garment. This is just an open-ended exemption to use foreign-made goods and will damage U.S. producers of findings and trim. There is no question of a shortage here. It is merely a direct substitution of U.S.-made products for foreign-made and we oppose this provision strongly.

Our final comment concerns something that is omitted from the bill. We believe that there should be a requirement that increases in imports from the Caribbean be offset by shifts of quota from the major Far East suppliers. As it now stands, the top four Far East suppliers ship over half of the apparel imported into the U.S. These suppliers, most of them newly-industrialized countries, should begin to share the burden of the development needs of the developing world. In the past, that burden has been borne by the U.S. textile and apparel industries and its two million workers. If the Caribbean Basin legislation is to be truly successful and avoid serious opposition by the domestic textile industry, there must be an offset provision.

We hope that this information will be useful to the committee and we stand ready to assist the committee in addressing these concerns.

Sincerely,

Carlos Moore
Carlos Moore
Executive Vice President

CM/cde

American Tourister
91 Main Street, Warren, Rhode Island 02885
A Hillenbrand Industries Company

March 15, 1989

Congressman Sam Gibbons
Chairman, House Trade Subcommittee
Rayburn House Office Building 2204
Washington, DC 20515

Dear Congressman Gibbons:

I am writing to you not only as an officer of American Tourister, a leading luggage company, but also as a manufacturing professional interested in transferring jobs from the orient to the United States and the Caribbean.

The vast majority of soft luggage is imported from Taiwan, Korea, Thailand, and China. These countries provide cheap labor and raw materials. In 1988, luggage imports accounted for more than $829 million. In contrast, we estimate domestically produced soft luggage amounted to less than 5% of the total, consisting of mostly high end, high priced bags. If luggage were produced in the Caribbean, the bulk of raw materials would be sourced in the United States. The combination of inexpensive Caribbean labor and U.S. raw materials results in shorter lead times to customers and creates jobs in both the Caribbean and in the United States.

American Tourister is in the process of building a factory to produce soft luggage in the Dominican Republic. We will source most raw materials in the United States. The production in this factory will replace luggage we currently buy from the orient. If CBI II passes with a duty exemption on luggage, economics will force other luggage companies to follow. Jobs will be created in the Caribbean. Domestic suppliers of raw materials will see increases in business and jobs. The only loser is the Orient. The luggage association (LLGMA) may oppose CBI II because it is easier to keep the jobs and business in the orient and away from the Caribbean and the United States. This is not in the best interests of the United States.

I strongly urge you to support CBI II with a duty exemption on luggage.

Sincerely,

Tom Korbas
Vice President, Operations
American Tourister, Inc.

CC: Andy Vance - Barnes Richardson & Colburn

TEL. (401) 245-210
TELEX 6814082
CABLE: TOURISTER

STATEMENT OF THE
AMERICAN TUNABOAT ASSOCIATION
ON
H.R. 1233
THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

MARCH 31, 1989

The American Tunaboat Association (ATA) hereby submits comments on H.R. 1233, a bill to improve the operation of the Caribbean Basin Economic Recovery Act, and requests that these comments be made a part of the record of consideration of the bill. The ATA is a non-profit fishery cooperative based in San Diego, California, made up of owners of U.S.-flag long-distance tuna fishing vessels. Currently, there are 65 tuna vessels with long-range capability operating under U.S. flag. The tuna caught by these vessels is harvested in the tropical Pacific Ocean from Central America in the east to Papua New Guinea in the west. The catch is delivered to U.S. processing plants in Puerto Rico, American Samoa, and a single cannery operating at San Pedro, California, the only one still operating in the continental United States. The primary market for U.S. tuna vessels are these U.S. based canneries.

The Caribbean Basin Economic Recovery Act (CBERA), as it currently reads, affords duty-free treatment for U.S. imports from Caribbean Basin beneficiary countries. 19 USC 2701-2706. This duty-free treatment was to continue in effect until 1995 in order to assist the beneficiary countries in the development of their economies. However, Congress expressly excepted certain products from duty-free treatment, including canned tuna. 19 USC 2703(b)(3). H.R. 1233 would change the tuna exclusion and allow duty-free treatment for almost 14 million pounds of canned tuna from beneficiary countries. The ATA wishes to voice its strong opposition to this proposed change in the provisions of the CBERA.

The domestic tuna processing industry, now concentrated in Puerto Rico and American Samoa, is protected by tariffs on imports on canned tuna in oil (35 per cent ad valorem) and canned tuna in water (6 and 12.5 per cent ad valorem). The rationale for these tariffs have been reviewed periodically and, following such reviews, the tariffs have not been changed. The last review was conducted during the debate over the CBERA in 1982 and 1983. After a lengthy debate on the floor of the House of Representatives, it was concluded that the tuna plants in Puerto Rico and American Samoa would be harmed by duty-free treatment of canned tuna from Caribbean countries. Tuna plants are highly vulnerable to foreign competition. This has been proved by the enormous inroads of Thailand-packed tuna into the U.S. market for canned tuna in water, notwithstanding the U.S. tariffs. Our tuna canneries, the primary market for our fishermen, are now located in locations with cheaper labor and lower costs. These locations are Puerto Rico and American Samoa, two political entities to which the United States holds special responsibilities. We believe that the changes to CBERA proposed by H.R. 1233 will surely lead to further erosion of the U.S. tuna industry, and will most directly harm workers in Puerto Rico and American Samoa.

The loss of U.S. canneries will also force U.S. vessels to find new markets in other countries. However, it is highly uncertain whether other countries would allow our vessels to deliver to their ports. We expect that many countries would require that our vessels change flags in order to land tuna. Most countries wish to encourage the growth of their fishing fleets, as we have.

From a policy standpoint, it makes no sense to encourage the development of tuna canneries in Caribbean countries in direct competition with plants in Puerto Rico and American Samoa. Some will argue that allowing only a small portion of canned tuna to enter duty-free will not be harmful. But once plants are set up, they will operate more efficiently with larger volumes and soon these plants will be clamoring for a larger duty-free quota to fulfill the promises made by the new legislation. We believe it is better policy to maintain the status quo and focus our policies on preserving the jobs of our workers in Puerto Rico and American Samoa, and preserving the market for our U.S. tuna fishermen.

We appreciate the opportunity to offer our views on this legislation and would be glad to provide more detailed information about our industry if the Subcommittee staff should need it.

[BY PERMISSION OF THE CHAIRMAN:]

STATEMENT OF JORGE H. ZORREGUIETA, CHAIRMAN, CENTRO AZUCARERO ARGENTINO (ARGENTINE SUGAR COUNCIL)

This presentation, prepared by Mr. Jorge H. Zorreguieta -Chairman of the Centro Azucarero Argentino- (Argentine Sugar Council) expresses the council's opposition to Section 8 in H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989 (CBERA). The Argentine Sugar Council represents Argentine sugar producers.

Section 8 sets a minimum quota floor for sugar imports from CBI countries at the 1989 aggregate level. The CBI share of the global sugar import quota in future years could not be set below the current level, but that share would increase proportionally if the quota increases. Therefore, should the quota be set below the 1989 level, the reduction would only apply to non CBI countries, Argentina among them.

Since the quota has been lowered in recent years, making quota reduction a historical constant, it would be safe to assume that there exists a high probability of further quota reductions, in such cases and according to H.R. 1233, Argentina among other non CBI countries, would be easily cut off from the U.S. sugar market.

Section 8 would grant preferential treatment to CBI countries, overlooking the damage that such action would cause to Argentine sugar exports to the U.S. in addition to the damage already caused by the U.S. sugar program itself.

The U.S. should respect its obligations under the General Agreement for Tariffs and Trade (GATT) and the waiver it has obtained from the CBERA program which would not be needed should the quota be distributed in a non discriminatory fashion.

I. SOCIO-ECONOMIC ASPECTS OF ARGENTINE SUGAR PRODUCTION

Sugar production greatly influences Argentina's overall production. The Argentine sugar industry, located in the northwestern region of our country (Salta, Jujuy and Tucuman) is the backbone to that area's socio-economic structure. Sugar is produced in 25 plants with 15,000 sugar cane producers and roughly 100,000 workers influencing over 400,000 people (20% of the population of the area). Sugar production alone amounts to 60% of the region's gross product.

Sugar production is a source of employment for a significant number of people in the area, its trickle down effect activily involves different sectors of these economies such as workshops, repair services, spare parts manufacturers etc. There are no employment alternatives for the area's labor force.

Due to fact that the geographical location where sugar is produced is an important economic/urban center, sugar production becomes a strategic industry for its social implications.

The installed industrial capacity destined to produce sugar cane amounts to approximately U$S 1,500. The agricultural investment and work infrastructure used for watering and other related services, directly or indirectly related to this activity should also be taken into account.

2. IMPACT OF INTERNATIONAL PRICES

Argentina's production ranged from 1.5 to 1.6 million tons, it's world wide exports amounted to 500/600,000 tons.

Basically, local consumption and a legal reserve amount to 1,000,000 tons of sugar. In 1984 national sugar production amounted to 1.5 million tons and the mandatory exporting quota was fixed at 500,000 tons.

In 1985, as a result of critical international market conditions, the Argentine Government decided to lower annual production from 1.5 million to 1.1. million tons; the export share was lowered from 5000,000 to 100,000. Production decreased 28% and exports decreased 80%.

In fact, the output was adjusted to 1 million tons for the local consumption plus 100,000 tons for exports, representing the export share to the United States at the time the decision was made.

The Northwestern Argentine Provinces underwent a severe economic crisis; 5.5 million tons of sugar cane remained uncut, and the unemployment rate in the area reached critical levels. The provinces also experienced a complex social upheaval; Tucuman was the province that suffered most the effects of terrorism and guerrilla during the period 1973/77.

The Government's decision was taken within the framework of a return to democracy, together with the enforcement of a harsh economic stabilization program, the objective of which was to reduce the devastating inflation at the time while complying with the Government's obligations toward its foreign debt. Annual debt payment is about 5.000 million dollars, representing approximately 7% of the Gross National Product. At the same time a significant drop in international prices for primary products took place. Primary products constitute Argentina's principal source of foreign currency. Taking all these facts into account, it is impossible for the Argentine Government to grant any type of subsidy which could solve the problem.

For 1986 production was set at 1.050.000 tons; again the export share was set at 100.000 tons. In 1987 production was set at 972,000 with a 50,000 tons export share.

Production in 1988 was set at 1,050,000 tons with a 70,000 tons export quota; for 1989 production was set at 980,000 tons with a 72,000 tons export share.

Argentine sugar exports to the U.S. have seriously suffered due to import quotas imposed by the U.S. sugar program.

3. EXPORTS TO THE UNITED STATES

Sugar exports to the United States are of great importance to the economy of a very important region in Argentina.

As a result of the U.S. sugar policy, U.S. sugar imports decreased from an average of 5 million short tons -raw value- for the years 1977/81, to 1 million short tons -raw value- for 1987.

Argentina's share in the American market is 4,3% , its imports decreased from an average of 280,000 tons, from 1977 to 1981 to successively lower values, as low as 39,000 short tons raw value for 1987.

U.S. SUGAR IMPORTS
Short tons - Raw Value

YEAR	1977	1978	1979	1980
ARGENTINA	266,968	271,019	234,820	197,172
TOTAL	6,138,048	4,682,900	5,026,746	4,494,688

YEAR	1981	AVERAGE 1977/1981
ARGENTINA	443.950	282.786
TOTAL	5,025,283	5,075,087

SINCE MAY 1982 THE QUOTA SYSTEM WAS IMPOSED

YEAR PERIOD	1982/83 10-1-82 9-30-83	1983/84 10-1-83 9-30-84	1984/85 10-1-84 11-30-85	1985/86 12-1-85 12-31-86
ARGENTINA	120,00	130,806	109,220	73,788
TOTAL	2,800,000	3,042,000	2,552,000	1,848,054

YEAR PERIOD	1987 1-1-87 12-31-87	1988 1-1-88 12-31-88	1989 1-1-89 12-31-89
ARGENTINA	39,130	43,175	49,914
TOTAL	1,001,430	1,054,676	1,238,380

SOURCE: USDA

It should be fairly easy to comprehend the negative effect that lower U.S. quotas had on our country's economy. Based on USDA's source, Argentina's sugar exports to the U.S amounted to 210 million dollars in 1981, they decreased to 41 million dollars in 1983 and 18 million dollars is the estimate for 1989.

4. GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT).

The responsibilities assumed by the U.S. as a GATT member, establish clear limitation on the reallocation of sugar import quotas.

Article XIII of the agreement prohibits discriminatory application of import quotas with respect to any product.

Article XIII, section 2 establishes that: the country which is restricting its imports must aim at a distribution of the trade in each product, approaching as closely as possible the shares which the various contracting parties (GATT signatories) might be expected to obtain in the absence of such restrictions. That is to say that any means chosen to modify the proportion established and accepted by the supplying countries within the quotas system set for sugar imports by the U.S., would clearly go against Article XIII.

Section 8 in H.R. 1233, sets a substantial modification to the proportions in which the quota is distributed in favor of some countries, and considering the present volume of imports within the quota system of the United States, it enormously reduces, probably to zero, exports from non CBI quota countries.

Moreover, the waiver guaranteed by GATT Contracting Parties to the U.S. by decision of February 15, 1985 allows for the application of CBI within the terms of the General Agreement. is clear when considering that the CBRA will not harm the interest of the other contacting parties and takes into consideration the assurances that the Government of the U.S. does not envisage any action, in contradictory to of the Act, which might cause adverse effect on the sugar trade of contracting parties who are not beneficiary countries.

According to section 4(i) of the Decision, the Government of the United States will assure that this waiver will not be used to contradict the principle of the non-discriminatory allocation of sugar quotas.

It is then clear that, as established in sections 4(ii) and 4(iii) of the Decision, any distribution of the sugar import quotas modifying present proportions, must be consulted by the U.S. Government with any contracting party -in this case the Argentine Republic- which is considered to be adversely affected by any such action.
There is no doubt that the Congress of the U.S. will consider this issue in light of the economic, social and political implications affecting Argentina and that it shall also take into consideration the obligations legally undertaken by the U.S. under GATT.

Finally, the United States has always defended liberalization and expansion of world-wide trade. The U.S. proposal presented at the Uruguay Round clearly demonstrate this fact. Therefore, it would not be consistent with such a proposal if the U.S. should distribute its sugar quota in a discriminatory way; such behavior would tarnish the image this country wants to present in liberalizing agricultural trade.

March 27, 1989.

Jorge H. Zorreguieta
Presidente
Centro Azucarero Argentino
Reconquista 336 - 12 Piso
Buenos Aires
Argentina
Ph.: 394-8661

AACCLA
ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA
1615 H St., N.W. / Washington, D.C. 20062 (202) 463-5485 COCUSA Telex RCA 248302

The Association of American Chambers of Commerce in Latin America (AACCLA) is a hemispheric business organization affiliated with the U.S. Chamber of Commerce and is comprised of 22 American Chambers of Commerce (AmChams) in Latin America and the Caribbean which represent over 14,000 U.S. and host country companies and individual businessmen. Of these, eight AmChams (Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica and Panama), are based in the Caribbean Basin and are beneficiaries of the existing CBI legislation. Together, our CBI AmChams represent 3,000 member companies and businessmen in the region.

Our members have a strong stake in the success of the Caribbean Basin Initiative. Unlike many of those who may provide comments on this legislation, our members live and work with the impact of the CBI every day. We see it working now and how it has worked in the past. Above all, we have practical and constructive ideas on correcting some of its shortcomings to make it more effective.

The proposals in H.R. 1233 the Caribbean Basin Economic Recovery Expansion Act of 1989 (aka CBI II) go a long way to improve the enacted CBI legislation. In particular, the Limited Duty Free Provisions for Exempt Articles granting benefits to apparel items under Guaranteed Access Level (GAL) agreements and the "tariff rate quota" provisions, except for textiles and apparel, are of significant benefit to producers in the region. These provisions will enhance exports of U.S. sourced cut fabric and, at the same time, limit any possible harm to the U.S. economy by the mechanism of the "tariff rate quota" arrangement for other exempt items.

Our analysis of the proposed legislation indicates, however, a denial of any benefit to non-apparel textile items. These products do not qualify for 807A treatment under GAL agreements and also, they are specifically excluded from the "tariff rate quota" provision. In other words, H.R. 1233 has improved to some extent the duty free treatment of all exempt items, except for non-apparel textiles.

To this effect, we suggest that non-apparel textile items be granted duty free access to the U.S. market if the items are made entirely of materials or goods that are produced in the United States. This limited approach is consistent with the duty-free treatment of apparel items assembled entirely from U.S. sourced cut fabric under GAL agreements.

As a point of interest, U.S. imports in 1987 from CBI countries of all apparel categories amounted to $1,083 million while only $73 million of imports corresponded to non-apparel items. The relative impace on the U.S. economy of non-apparel versus apparel items is evident from these data; however, the non-apparel items are of paramount importance to the struggling economies in the region.

We also suggest that a minimum amount of non-U.S. components be allowed for these textile products that will be granted duty free treatment under the GAL (807A) agreement proposal. Such a minimum amount will allow some manufacturing flexibility with no damage to U.S. industry.

Last, but not least, we suggest that the legislation include a "Sense of Congress" language to stress the economic importance of tourism to the region. It should also encourage U.S. institutions like OPIC & AID to assign a high priority to projects and activities which develop and promote tourism in the Caribbean Basin region. A similar proposal was made by Mr. David Rockefeller, Chairman of Caribbean/Central American Action (C/CAA) in his testimony to Congress on March 28, 1988 and later endorsed by Ambassador Clayton Yeutter in his testimony on September 15, 1988.

In summary, we believe that H.R. 1233 is a vital program that offers significant improvement over current legislation. However, the proposed CBI II legislation should be expanded as suggested herein in order for beneficiary nations to further improve their economic and political structures. Such improvement will help to ensure political stability for years to come in this region, which is so vital to the commercial and strategic interests of the United States.

We also believe that the benefits of H.R. 1233, enhanced as suggested herein, will accrue significant advantages to the U.S. First, the need for direct economic assistance to the region will decrease. Second, U.S. exports to the region will increase as a result of improving the purchasing power of the population and by the preferential duty treatment granted to manufactured items made entirely of U.S. raw materials or goods. Third, there will be an increased ability to repay the vast foreign debt of these countries, held primarily by U.S. financial institutions. Fourth, there should be a reduction in illegal immigration to the U.S. from the region.

We congratulate the U.S. Congress for its far reaching vision to improve the economic prosperity and political stability of the region and we pledge ourselves to work with Congress and the Administration to help implement CBI II.

[BY PERMISSION OF THE CHAIRMAN:]

STATEMENT OF THE ASSOCIATION OF SUGAR CANE GROWERS OF COLOMBIA

STATEMENT

This statement aims at showing why, notwithstanding its worthy general development purpose in favor of the Caribbean Basin, the legislation presented should not pass as it stands. The name and address of the interested party on whose behalf this commentary is presented (hereinafter referred to as ASOCAÑA) are as follows:

Asociación Colombiana de Cultivadores de Caña de Azúcar de Colombia (ASOCAÑA)
Apartado Aéreo 4448
Tel: 57-23-64 7902 FAX: 57-23-64 5888
Cali, Colombia

Growers affiliated to ASOCAÑA make up 99% of sugar production in Colombia. They also account for all its sugar exports. Neither these nor any of the sugar which is produced for the local market are subsidized in any way. To the contrary, local sugar prices are still regulated by the Colombian Government -- one of the very few such cases in an otherwise market-oriented economy.

Direct employment among ASOCAÑA members amounts to 35,000 people, most of them unskilled labor, with an additional 100,000 likely indirect jobs across the Colombian economy. Despite price regulation at home and protectionism abroad, our members also accounted in 1988 for 1.6% of the country's GDP and 3.2% of its Gross Industrial Value of Production. This contribution assumes more than proportionate importance in the Valle del Cauca, the main sugar cane-producing region of Colombia, of which Cali is the capital, what with percentages of 4.4 and 14.4, respectively.

Colombian cane sugar production is widely regarded as efficient and would be highly competitive in an international market free from current trade distortions. As it happens, however, developed countries' protectionism has irremediably affected such prospects by halving international market price and de-stimulating Third World exports in the process of providing incentives for their own production through strict import quotas and higher domestic prices.

While this situation is no doubt familiar to Trade Subcommittee members -- and was dealt with authoritatively by The World Bank in its 1986 World Development Report -- for ASOCAÑA the impact has been closer to home. Such trade barriers are estimated to have cost us US$200 million and 5,000 people in cumulative losses of money and jobs during the course of the current decade through 1988. Our share of the U.S. import market, once significant, has been continuously declining over the years and now stands at a minute 2.3%, which is to say less than three per thousand of total U.S. consumption.

ASOCAÑA nevertheless supported the 1983 Caribbean Basin Economic Recovery Act (CBERA) because we firmly believe in the importance of an economically healthy and politically strong Caribbean. At the same time, the a priori inconsistency of such legislation with GATT and other international obligations of the United States regarding sugar and other products has been duly recognized by all parties concerned, as witness:

__ the provision for "appropriate compensation" to such sugar-producing countries as may be injured by the legislation; such compensation, however, is highly theoretical as it rarely, if ever, accrues to the affected industry -- and, in this case, to ASOCAÑA;

__ the issuance by GATT of a special Waiver to exempt the 1983 CBERA from general GATT rules, including the Most Favored Nation principle; such a waiver, however, would obviously have to be requested anew, were both the duration and the content of the legislation to change.

It has also been pointed out by others that setting an upwardly mobile floor on sugar import quotas from CBI countries while all other quotas are allowed to move downwards introduces an extreme form of discrimination and may result in the virtual disappearance of the rest of the world from the U.S. sugar import market. While this may not be the legislators' intent but, rather its likely impact at an early date, e.g. as soon as 1990, not accounting for it would obviously be irresponsible.

The likely cost to ASOCAÑA, under such circumstances, is clear, as virtually all our exports to the U.S. would go down to zero, with the corresponding effect on employment and income. This may not be the most propitious time for such a scenario when both Colombia and its chief sugar-producing region are undergoing an unparallelled assault on their economy and their institutions from various sources of violence, including the narcotics mafia.

CONCLUSION

This is a crossroads situation for ASOCAÑA. Depending on whether the rightful sugar cane interests of Colombia can be balanced or not against the legitimate development priority which Congress has vested in the CBI, the result may be the overnight loss of our main export market, following a long trend of increasing restrictions from the industrialized world.

We have made great efforts to be where we are and we are proud of the quality of the product we sell. We are contributing to the agroindustrial development of Colombia and are generating much needed income and employment in strategic areas of the country. All of this would be threatened irremediably, were we to do without the U.S. market. We trust the House Ways and Means Committee and its Trade Subcommittee will give due weight to this deeply felt concern.

Respectfully submitted on behalf of the Association of Sugar Cane Growers of Colombia (ASOCAÑA).

March 30, 1989

[BY PERMISSION OF THE CHAIRMAN:]

EMBASSY OF AUSTRALIA
WASHINGTON, D. C.

17 March 1989

The Honorable
Sam M. Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Independence Avenue SW
WASHINGTON DC 20515

Dear Congressman Gibbons,

I am responding to your request for comments on HR 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989, in particular Section 7 of that Act.

Australia has noted and appreciated the emphasis that the Ways and Means Committee and others in Congress have placed on the need of the U.S. to open markets and pursue trade development on a fair, commercially oriented basis. These are objectives that Australia shares.

The Australian Government welcomes the United States objective of seeking to assist the flow of trade between the U.S. and its Caribbean neighbours. In that regard it is certainly our view the present restrictions on sugar imports into the United States have been detrimental to all sugar exporting nations - Caribbean, Australia and others - and to U.S. consumers and sugar producers.

However Section 7 of HR 1233 is of concern to Australia and departs from the fair, commercially oriented approach the Committee has been advocating. In very likely circumstances the bill, by favouring the Caribbean countries, would discriminate against other suppliers including Australia.

The proposals would be in breach of the general rules of international trade, GATT rules, and of specific undertakings that the U.S. gave Australia and others in the GATT with respect to CBI sugar quotas. While the bill refers to "compensation" for trade loss, that of itself underlines its potentially detrimental character for both U.S. and Australian trade. These comments are elaborated below.

Australia/U.S. Trade

The United States enjoys an excellent market in Australia. You have a 2:1 trade surplus in your trade with us. In 1987 the last year for which statistics are available, we provided your second largest trade surplus with any country.

In addition Australia has been systematically, and of its own volition, cutting its import tariffs and removing non tariff barriers. Australia provides the U.S. with the very trading environment the U.S. has been seeking from others. In that regard it is somewhat an exception in U.S.'s trading relationships and we would assume, a situation the U.S. would want to encourage.

But much of Australian trade with the U.S. is subject to quotas and non tariff barriers, sugar being a prime example. For the U.S. to adopt a further trade measure which discriminates against Australia on top of the costs we have incurred by U.S. restriction of this important commodity would be highly detrimental to the trade relationship.

Australian Sugar Industry

Australia is a major exporter of sugar. Total production in recent years has averaged around 3.8 million short tons (and around 4.0 million short tons in 1988) with about 80% exported, mostly to countries in the Pacific Rim. Most of that sugar is exported at ruling world prices. Our heavy export dependence and lack of Government subsidies have forced the industry to become one of the most efficient, low cost producers in the world. Australia, unlike many countries, does not enjoy access to the EEC market at the guaranteed prices that apply under the Lome agreement.

Australia/U.S. Market Loss

Until recently, the U.S. has been a major importer of sugar from the world market.

Australia has been a traditional and reliable supplier to this market. Even when returns to the world market have been higher than in the U.S., the Australian industry continued to supply.

In 1981, the year before the current restrictive quotas were last introduced, Australia exported nearly 715,000 short tons of sugar to the U.S. Since then, quotas have systematically reduced our access to the point where, in 1989, Australia's quota is just 96,343 short tons.

U.S. Sugar Program

The reason for this dramatic decline in imports has been the U.S. sugar program which has guaranteed U.S. sugar producers a price well above world market returns. This has resulted in an increase in U.S. sugar production of over 1 million tons. More significantly, it has provided an umbrella under which artificial sweeteners, particularly corn-based, have been able to expand and capture over half the U.S. sweetener market.

The effect of the dramatic contraction of the U.S. sugar import market on overseas sugar exporters this decade has been two-fold. Firstly, it has all but eliminated what was once the world's largest free market for sugar and secondly, it has depressed world sugar prices.

There has probably been no other trade measure adopted by a developed country this decade that has cut trade or affected world markets to the extent of the U.S. sugar program.

GATT Case against the U.S. Program

Australia believes that the U.S. sugar program is in breach of U.S. international obligations (the GATT) and over recent years has consistently advocated change to it. In July 1988, Australia sought a formal ruling from the GATT on the import quotas which are a critical element of the program. This is the first time we have ever taken such a step against a U.S. agricultural industry. A decision on this case is expected later this year.

Australia expects that the U.S. response to an adverse GATT finding would be to bring its sugar program into line with its international obligations as have other countries like Japan when faced with similar rulings.

In respect to this latest legislation Australia's Minister for Trade Negotiations, The Hon. Michael Duffy M.P., noted that the legislation, as drafted, would be a clear breach of U.S. GATT obligations and that its enactment could well lead to a further action being brought against the United States in the GATT.

Australia's objective in taking GATT action is to open up the U.S. market for all to compete in on an equitable basis. Therefore, the provision in the Bill which authorizes the Administration to pay compensation in accordance with the United States' international obligations (i.e. the GATT) does not lessen our concern. It is an admission that the proposal is not consistent with GATT rules.

Australia's prime concern is to have a market for sugar rather than compensation.

Discrimination involved in HR 1233

While the drafting and description of the bill is not entirely clear the nature of the discrimination involved in HR 1233 is twofold:

(a) by providing a guaranteed minimum access level for CBI suppliers alone, future cuts in total U.S. import quotas (a likely occurrence if the program is not changed) would be loaded onto the residual suppliers, including Australia.

(b) any shortfall in shipments to the U.S. by any exporter would be reallocated to CBI countries, not to exporters as a whole.

Past U.S. Undertakings on CBI Quotas

The waiver from the GATT given the U.S. to implement its first CBI Act, contained specific undertakings by the U.S. not to contravene the principles of non-discriminatory allocation of sugar quotas. The exact text is provided in Attachment A. The "waiver" for the arrangement therefore depends on adherence to those undertakings which Australia naturally trusts the U.S. will honour.

This undertaking is over and above the general obligations that the GATT imposes not to discriminate in quota allocation.

Conclusion

The present restrictions on sugar imports into the U.S. have been detrimental to Australia, to other sugar exporting countries, and to U.S. producers and consumers. To compound this problem further by trade discriminatory measures would be counterproductive and costly to U.S. industry. Australia looks to the U.S. to dismantle its trade barriers rather than by taking discriminatory action detrimental to Australia.

Yours sincerely,

(F. Rawdon Dalrymple)
Ambassador

[BY PERMISSION OF THE CHAIRMAN:]

Canadian Embassy   Ambassade du Canada

501 Pennsylvania Avenue, N.W.
Washington, D.C. 20001

March 30, 1989

The Honourable Sam Gibbons,
Chairman,
Subcommittee on Trade,
Committee on Ways and Means,
U.S. House of Representatives,
Room 1102 Longworth House Office Bldg.,
Washington, D.C. 20515.

Dear Mr. Chairman,

I am writing to advise you of my Government's concerns regarding provisions in HR-1233, the Caribbean Basin Economic Recovery Expansion Bill of 1989. This bill would allocate the U.S. sugar import quota to supplying countries on a discriminatory basis and would have an adverse impact on trade in sugar between Canada and the United States. Such action would be inconsistent with U.S. obligations under the GATT and the Canada-U.S. Free Trade Agreement (FTA) to allocate quotas on a non-discriminatory basis. It would also be contrary to the FTA objective of eliminating barriers to trade between our two countries.

If the Canadian share of the U.S. quota were reduced as a result of such discriminatory action, the Canadian Government would exercise its rights under the FTA and the GATT to restore the balance of concessions. In recent years the United States has exported almost twice as much refined sugar to Canada as Canada has exported to the United States. Indeed, Canada is the United States' second largest export market for refined sugar.

I would hope that you would bear these factors in mind in the further consideration of this bill.

Yours sincerely,

DHBurney

D.H. Burney
Ambassador

CARIBA INTERNATIONAL CORP.

1020 Harbor Lake Drive • P.O. Box 1208 • Safety Harbor, FL 34695 • Phone (813) 725-2517 • Telex 80-3881 • Telecopier/FAX 813 726-7832

March 27, 1989

The Honorable Dan Rostenkowski, III
U. S. House Of Representatives
1102 Longworth HOB
Washington, D.C. 20515

Dear Congressman Rostenkowski:

> "The commerce of the West Indies Islands is a part of the American system of commerce. They can neither do without us, nor we without them. The Creator has placed us upon the globe in such a situation, that we have occasion for each other. We have the means of assisting each other, and politicians and artful contrivances cannot separate us." John Adams 1735 - 1826

We are writing you to express our support for H. R. 1233/S. 504, the Caribbean Basin Economic Recovery Expansion Act of 1989, introduced by Congressman Sam Gibbons and Senator Bob Graham on March 2, 1989. Our firm of 10 employees exports $3 million products/services to the Caribbean.

The United States has important economic and security interests in the Caribbean and Central America. This important legislation recognizes that fact and builds on the solid foundation of the original Caribbean Basin Initiative (CBI) legislation to expand elements of trade policy which will lead to further economic growth and development in the region. By expanding the benefits of the original CBI, we encourage further economic development in the region, strengthen private and public sector institutions, encourage democratization by helping to stablize economies and, importantly, conserve and strengthen our special relationship with the nations of the Caribbean and Central America.

The passage of CBI in 1983 was a critical element in improving political relations between the U.S. and the region through promotion of economic growth. Although there has been some criticism of CBI, it primarily has been that the CBI did not go far enough.

The extension and expansion of CBI will provide an opportunity to sustain the progress which has already been made and will go a long way in helping the governments in the region overcome the problems they face in international markets. It will also continue to attract the active involvement of U.S. companies in the region as a vital partner in economic development. Furthermore, at a time in Central America when economic incentives are most needed, an improved CBI can be an important part of the answer.

Congress should make it clear that the Caribbean Basin's tourism and travel industry is the principal industry of the region and that it should be helped and not hindered by the United States Government. The industry supports half a million employees in the Caribbean and spends $3 billion a year, over half its earnings, on U.S. supplies and services.

We fully support the need for expansion of the original CBI as outlined in the new legislation. We hope you will be a strong and active supporter of new CBI legislation and we look forward to working with you on this important bill.

Sincerely,

CARIBA INTERNATIONAL CORP.

Stephen A. Hopwood,
President

Brian J Ladell

Brian J. Ladell
Vice President

SAH/BJL/jac

CARIBBEAN
CENTRAL AMERICAN ACTION

AN ORGANIZATION ASSOCIATED WITH THE AMERICAS SOCIETY, INC.

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
Committee on Ways & Means
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Sam:

In view of the scheduled April 11 mark-up of the Caribbean Basin Economic Recovery Act of 1989 (CBI II), I wanted to take this opportunity to send forward some comments and observations on the legislation. As you know, Caribbean/Central American Action (C/CAA) is vitally concerned with economic development in the Caribbean Basin region and works closely with both the private sector and governments in the region to promote economic growth and stability. C/CAA's comments on the legislation reflect a consensus of a number of apparel manufacturers, consultants and political leaders in the region who we have been discussing these issues with over the past few months. We feel comfortable that these positions genuinely reflect a centrist position representative of a broad cross-section of the Caribbean Basin Community.

First, I want to congratulate you on the introduction of H.R. 1233. Although the accomplishments of the original CBI have indicated a very positive trend including over 640 new investment projects, $1.6 billion worth of investments to the region, creation of over 95,000 new full-time jobs and 21,000 new part-time jobs, there has been ample criticism that the bill did not go far enough. However, I believe that CBI I has helped to bring the United States and the Caribbean Basin countries into a new and positive era of political and economic relationships. Although there are continuing debt and cash flow problems in the region, as well as unemployment and the need for greater economic growth to buttress political stability, H.R. 1233 shows a positive step in trying to meet these problems and the continued and strong desire of the U.S. to build on the foundation of CBI I and strengthen our relationships with the countries in the region.

Second, let me address some of the points which I feel are important in the context of the textile and apparel issues in the legislation. Under CBI I, textile and apparel products accounted for 10% of the new investment in CBI beneficiary nations and fully half of the jobs. In 1986 alone, CBI countries sold $814 million worth of textile products to the U.S., and since 1983, exports have risen 29% in this area. These export figures indicate both a benefit to the CBI countries and to the U.S. domestic industry which as benefitted from a preservation of U.S. jobs due to regional production sharing. We are pleased that CBI II addresses textile and apparel issues although it is in a limited fashion. On the specific points mentioned in the bill, I would make the following observations.

— Duty free treatment for textile products entering under Guaranteed Access Levels (Sec. 213A, (a) (2)) is a welcome addition. However, it should be made clear that the granting of GAL should not be linked to any requirement or conditions on agreement of SL and DCL's.

— On the issue of "greater fairness, transparency and stability" as indicated in Sec. 213A (a) (7), it is our belief that this language should be deleted. Such language is a discriminatory provision treating the CBI beneficiary countries in a punitive and negative fashion and intruding on their sovereignty in a way never applied to other countries or regions in similar legislation. Such a provision would seem contrary to the intention of the bill which is to enhance trade and bolster economic growth.

— On the important provision of foreign fabrics, we would endorse the critical shortage exception (Sec 213A(4)(A)). Importantly, advice on any critical shortage decision should be received from an impartial group (specially appointed for that task) which should include involved representatives from both the textile and apparel sectors.

In addition, recognizing that expanding CBI trade in apparel and other finished textile products with the United States is the key to the success of the CBI program, we strongly suggest that no legitimate means for achieving that primary objective should be overlooked. CBI enhancement legislation should also include:

-- A provision granting larger growth rate for CBI beneficiary countries to

  a. Allow higher percentage of U.S. consumption before calling for consultation for those categories which are not subject to SL.

  b. Increase the annual growth rate for categories subject to SL.

C/CAA would also recommend including the following:

1) Provision to authorize U.S. Government agencies (OPIC, ExIm Bank) to provide financial support to those American firms seeking to invest in CBI beneficiary countries in plans to produce garments and other finished textile products.

2) Provision for duty-free and quota-free status for garments made in the Caribbean Basin beneficiary countries from using indigenous fabrics.

3) Provision for some form of duty relief for products made from non 807A fabric. This would be consistent with the type of duty concessions for non-textile excluded items and would recognize that the CBI industry can not be reliant on fabric from just one source.

On the subject of tourism, it is critical that CBI II address this important issue despite the possible implications for referral to other committees. Tourism has been the region's top foreign-exchange earner, attracting $655 million in investments since 1983, and adding to the half-million tourism and tourism-related jobs. With appropriate emphasis and support, tourism has the potential to create even more foreign-exchange and jobs and to make a significant contribution to economic growth and stability. In this context, the legislation should make clear to all U.S. agencies that tourism is a legitimate and beneficial element to the growing economies in the region and they should be encouraged to assist this sector as is already done with other legitimate industries. C/CAA heartily endorses the pro-tourism language proposed in 1988 testimony by David Rockefeller (and endorsed at the time by the Administration) that:

"The Congress finds that ... the tourism industry must be recognized as a central element in the economic development and political stability of the Caribbean Basin region, through its potential for increased employment, foreign-exchange earnings, important linkages with other related sectors, and it is the sense of the Congress that increased tourism and related activities should be developed in the Caribbean Basin region as a central part of the CBI legislation, and that a high priority should be assigned by the United States Government to projects and activities which develop and promote the tourism industry in the Caribbean Basin region."

C/CAA supports the language in Section 7, Sugar Imports from Beneficiary Countries which would, through the establishment of a Minimum Access Level and the preferential allocation of various quota shortfalls to CBI beneficiary states, continue to recognize the importance of sugar to economies in the region and restore some stability to this industry in the region. We would hope that this language would be indicative of a trend in U.S. policy which would continue to increase the percentage allocation for sugar for the CBI countries whenever and wherever possible.

One of the areas which is not addressed in the current legislation but is of particular interest to us and to several companies based both in the U.S. and the Caribbean Basin, is the issue of ethanol exports to the U.S. As you are aware, the current legislation requires that ethanol exports to the U.S. contain a percentage of local domestic content. This requirement (now at 75%) has effectively shut down operations in the region and has placed the companies and their employees in a situation of uncertainty. In an effort to change this status, Congress included language in the Trade Bill which requested the General Accounting Office (GAO) and the U.S.

International Trade Commission (ITC) to undertake studies to determine whether the local feedstock requirement was economically feasible for ethanol producers and if not, to recommend modification that would ensure meaningful production and employment in the region, discourage the processing of feedstock obtained outside the region, and not result in harm to ethanol producers in the U.S. Both of these reports are now available and support the claims of the CBI producers that the requirement is economically unfeasible and that the impact of the current export levels is negligible.

Ethanol production has played an important part in economic development in countries like Costa Rica and Jamaica, generating employment, foreign-exchange, and government revenues. However, with the uncertainty that has existed for almost a year over the export requirements, current production and future business planning is difficult, if not impossible. C/CAA strongly urges that a permanent solution on this matter consistent with GAO and ITC reports be included in the CBI II legislation. Such action by the Congress should be consistent with the original CBI legislation and the development goals of the region.

I want to thank you for your time in reading C/CAA's comments on H.R. 1233, and would be happy to discuss them further with you or your staff. As always, if C/CAA can be of any asistance to you in the process of consideration of the legislation, please do not hesitate to give me a call.

Sincerely,

Peter B. Johnson
Executive Director

cc: G. Weise

STATEMENT OF THE CARIBBEAN TRADE AND APPAREL COALITION
H.R. 1233

By Jonathan Russin
Kaplan Russin & Vecchi

This statement is submitted on behalf of the Caribbean Trade and Apparel Coalition (C-TAC) with respect to H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989. C-TAC was afforded the privilege of offering testimony and submitting comments last year with respect to H.R. 3101, which was the earlier version of H.R. 1233. We appreciate the opportunity to comment on the revised version. Certain important differences exist between the two bills, and comments on the new version are appropriate.

Summary

- C-TAC supports H.R. 1233. The bill, if enacted, would provide increased tax and trade benefits to CBI beneficiary nations, which is the purpose of the legislation.
- However, the evolution of H.R. 3101 in the 100th Congress into H.R. 1233 in the 101st Congress has reduced previously included incentives which were designed to achieve three very important objectives. Those objectives are: stimulation of U.S. investment in Caribbean nations, expansion of exports by beneficiary nations into new non-traditional products, and the development of additional exports from locally owned and managed businesses.
- With respect to the first two objectives, the changes from last year's bill completely eliminate any additional incentives for U.S. companies to establish assembly operations in beneficiary nations for any items other than textile products. Even the textile incentive is substantially reduced. H.R. 3101, by contrast, contained strong incentives for such capital investment and job creation by providing duty free and quota free treatment for any products assembled entirely from U.S. components. This change will not create new stimulus for the growth of Industrial Free Zones in beneficiary nations, and will tend to skew new investments toward textile product operations.
- With respect to the third objective, the revised legislation similarly eliminates new incentives for establishment of locally owned assembly operations by Caribbean companies. Under last year's version of this bill, local companies in beneficiary nations would have been encouraged to establish their own operations to assemble products from U.S. components for sale in the U.S. market. This could have stimulated local entrepreneurial activities consistent with the most basic purposes of CBI.
- We also believe that a comprehensive program to expand the economies of Caribbean nations must address problems of advanced education and training. Inclusion of such provisions within H.R. 1233 would likely require these programs to be trade-related to avoid jurisdictional claims of other committees. If such provisions could not be fit within the jurisdiction of the Ways and Means Committee, separate legislation should be supported.

- We urge the Subcommittee to resist further efforts to narrow the scope of this important legislation, and we are hopeful that support might be demonstrated for strengthening amendments. On balance, however, we believe H.R. 1233 is helpful, and should be enacted.

No Incentives For Non-Textile Assembly Operations

Export assembly plants represent one of the few growth sectors in the economies of the Caribbean nations. H.R. 3101 in the 100th Congress contained a provision allowing duty free and quota free import for commodities assembled from wholly United States components. H.R. 1233 in the current Congress removes this stimulus to assembly operations, and replaces it with a guaranteed access level (GAL) program applicable only to apparel from countries with bilateral textile agreements with the United States. The effect is to eliminate one of the most significant incentives designed to stimulate CBI export growth.

Under the revised bill, there are no new incentives whatsoever for any U.S. company to invest the first new dollar in any new assembly plant in any beneficiary nation for any non-textile products. Whatever investment occurs will occur for reasons unrelated to H.R. 1233. The duty free/quota free provisions of H.R. 3101, however, would have given investors clear economic inducements to make such investments.

As a consequence, the growth of Industrial Free Zones (IFZs) in beneficiary nations will not be encouraged by this legislation, except for the possibility of textiles subject to GAL agreements. In our earlier testimony on H.R. 3101, we offered compelling evidence of the benefits of IFZs to the Dominican Republic. Other countries have enjoyed similar benefits. IFZs, however, are established for the purpose of encouraging foreign companies to make investments in the local economies by setting up assembly and marketing operations in these designated areas. Every job created thereby is a new job, and every dollar of foreign exchange generated is a new dollar. IFZs have been among the largest sources of new employment and new foreign exchange in CBI countries. If the Subcommittee wishes to promote this approach, and we believe it should, we suggest that serious consideration be given to reintroduction of the duty free/quota free provisions, at least with respect to non-textile exports.

Finally, the 807 program, which operates globally and (except for apparel) without product restriction other than the product must be assembled with American components, would continue to operate as it has in the past. Under H.R. 1233 incentives for Caribbean beneficiaries are removed. Competitive pressures from Canada, Japan, and other Asian nations that have prevented CBI beneficiary nations from enjoying greater benefits of 807 will continue. The duty free/quota free provisions of last year's legislation, however, would have created a special type "807 program" approach for beneficiary nations that would have enabled those countries to become more competitive. The approach was simple and straightforward, and would have signalled United States support for CBI export assembly operations.

Apparel Incentives Reduced

The duty free/quota free approach of H.R. 3101 also applied to garments assembled from wholly U.S. fabric and accessories. Under the Special Access Program business decisions become more complex and uncertain. Instead of making decisions based solely upon economic factors, as would required to consider an evolving regulatory scheme that is being continually clarified through various interpretations, and is, in all cases, subject to the outcome of continuing negotiations between two sovereign nations. The GAL program introduces many new variables into the planning process.

Experience with GALs under the Special Access Program for textiles has also been characterized by many administrative problems and uncertainties. Enactment of that program into statutory language would not be especially encouraging to U.S. businesses faced with expansion decisions. From this perspective, the original approach was preferable.

In addition, the Special Access Program only applies to textiles, and will be of little benefit to other beneficiary nations whose foreign exchange earnings are based on exports other than textiles. The approach in H.R. 3101, which would have covered all commodities, would have made the benefits of this CBI legislation more equally available to all nations, rather than tilting the "benefit pot" toward those countries with substantial textile exports. As the legislation is now drafted, countries that do not export assembled garments or the other specified import sensitive products have less to gain from the bill.

It is also important for beneficiary nations to expand their exports of new and non-traditional products. Again, the provision of last year's legislation that would have allowed duty free and quota free entry of any commodities assembled from U.S. products would have encouraged diversification. Reliance on GALs, however, which are only textile related, do not.

Caribbean Entrepreneurship

American companies are not the only entities that assemble U.S. components into finished products for sale in the U.S. market. Local Caribbean companies can do the same thing, and encouragement of such activity was one of the most basic premises of the original CBI in 1983.

The duty free/quota free provisions of H.R. 3101 would have stimulated this entrepreneurial activity. Companies in beneficiary nations would have had greater incentives to assemble a wide variety of products from U.S. components for export to the U.S. New companies could have been formed to do assembly operations, established companies could have expanded, and local self-generated growth would have resulted.

H.R. 1233, however, contains no such incentives. Any local commercial growth or expansion with respect to assembly operations in beneficiary countries will occur, if at all, whether or not H.R. 1233 is even enacted, and without regard to its provisions.

We believe that a comprehensive program to benefit CBI countries should have, as one of its central components, a program that encourages the establishment and growth of local businesses. Assembly operations are particularly well-suited to CBI beneficiary nations, and we hope that consideration might be given to provisions that would create incentives for such local companies to grow.

Education And Training Programs

H.R. 1233 is designed to strengthen the economies of beneficiary nations. Appropriate tax and trade preferences will certainly contribute to that objective. The objective, however, cannot be fully achieved and maintained without a corresponding strengthening of educational systems.

We believe that consideration could be given to education assistance programs that are separate from the development assistance programs within the jurisdiction of other committees. We suggest that the extensive resources of America's higher education system, especially the land-grant universities that receive federal support, could be utilized for this purpose. These institutions have extensive experience in areas that not only involve all aspects of education, but also encompass agriculture, rural development, forestry, natural resources, health, micro-enterprises, and other disciplines common to the needs of developing countries.

Many major American universities have maintained extensive and long standing education and training programs for foreign students. Many of these universities send faculty members abroad to provide technical assistance in a variety of areas where local expertise is lacking. We believe these resources could be constructively channeled into CBI beneficiary nations in ways that could strengthen economies, improve long term educational opportunities, promote international understanding and cooperation, and contribute to America's long-term objectives in the region.

We appreciate Congressman Gibbons' comments at hearings last year that an education title in CBI legislation could result in referral to another committee, thus delaying enactment of needed tax and trade benefits. Although we do not intend to involve ourselves in questions of committee jurisdiction, we recognize that these universities, by virtue of their tax exempt status, already fall within the jurisdiction of the Committee on Ways and Means in certain respects. In addition, utilization of university resources in the context of this legislation could contribute to solutions of special trade related problems involving trade with developing countries.

In any event, to the extent that educational benefits can be provided in H.R. 1233, we believe that amendments should be offered. To the extent, however, that educational provisions would result in referral to other committees, we offer these suggestions for the benefit of separate legislative activity.

Conclusion

We believe H.R. 1233 offers hope of eventually realizing the original purpose of the CBI. It would encourage some trade expansion and promote selected exports from certain CBI nations. We have suggested improvements which could be incorporated in this, or future, CBI legislation. The bill, however, should be enacted.

[BY PERMISSION OF THE CHAIRMAN:]

STATEMENT OF THE CBI EMBASSY GROUP

These comments are submitted by the CBI Embassy Group, which represents the diplomatic missions of CBI-beneficiary countries in the United States, with regard to H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989". In response to invitation for public comments by the U.S. Congress.

It is our hope that our view points will be taken into consideration as the oppinion of the beneficiary countries.

The CBI Embassy Group welcomes the introduction of H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989", by Congressman Sam Gibbons, Chairman of the Trade Subcommittee of the House Ways & Means Committee. This legislation addresses the necessity to promote economic development in Central America and the Caribbean, a crucial complement to current efforts being undertaken to achieve socio-political stability through dialogue and negotiation. It enhances several key areas that are of vital importance to the countries in the region in terms of employment generation and self-sustained growth.

Paramount among the provisions of the bill is the repeal of the termination on duty-free treatment under the Act thereby extending C.B.E.R.A. benefits permanently. Providing the assurance that this benefit will continue in effect, thereby enabling businessmen to plan ahead with certainty. At the same time, it constitutes a real incentive for investment in the region for a long-term commitment, while further strengthening economic diversification into non-traditional products making the economies of the nations in the area more solid and viable.

Section 8, which deals with cumulation in trade injury cases, guarantees that there will never be a repetition of the infamous Costa Rican cut flower case, and gives the private sector a safeguard against being cumulated together with other major exporters from other parts of the world. One must keep in mind that the industrial production in the Caribbean Basin is yet incipient and represents no injury or threat thereof. It would be unfair to categorize CBI suppliers with those large-scale producers in other countries whose market penetration maybe substantial.

H.R. 1233 also includes valuable provisions dealing with sugar, the second most important commoditty of the region, through the establishment of a Minimum Access Level and preferential allocation of quota shortfalls to CBI countries. Sugar has been a mainstay of those economies since colonial times, and its importance in generating foreign exchange and employment are underscored by the bill's recognition of the damage suffered in past years due to the quota reduction in over 70% since 1983. Already voices of opposition have echoed, claiming GATT violations on the one hand, or of "paleative measures" that do not address the core problem on the other. The provision as it stands represents an adequate measure of relief, until the major issues can be tackled in the Farm Bill or when results may be obtained in the Uruguay-Round negotiations with the European Economic Community. H.R. 1233 provides for compensation authority in case the quota should be reduced below 1989 levels, therefore guaranteeing the basic interests of non-CBI sugar exporting countries. Hopefully, these provisions will be complemented by other pieces of legislation that would enable the Caribbean and Central America to minimize any further adverse impact on their sugar industries.

Section 213A, subsection (b), which establishes a "general duty-free quota" for various products previously excluded, constitutes a considerable incentive for new investments in the region, particularly in industries like footwear for which the region offers great potential. The CBI Embassy Group supports these provisions and hopes that the determination of categories for the purposes of administering this section will be done as soon as possible, so that such benefits can promptly go into effect once the bill is approved.

There are several key sections in the bill that offer potential for growth yet need to be strengthened, thereby making the goal of promoting economic development in the Caribbean Basin more viable and realistic. Key among these are the ones dealing with textiles; within this context, the CBI Embassy Group believes that special treatment for CBI textile and apparel products entering the United States would represent a significant benefit to the region. In this regard the Embassy Group considers that as minimum all textiles, such as apparel products produced in the CBI region, manufactured from U.S. or CBI materials and components should be duty and quota free. Expanded opportunities created under a more liberal system would not only help beneficiary nations, but also the U.S. industry which would sell more fabric and yarn in the region, but U.S. manufacturers operating in the area as well. This would be fully congruent with the underlying philosophy and intent that gave birth to C.B.E.R.A., and should be seriously considered by the 101st. Congress.

The CBI Embassy Group would like to outline several specific view points in relation to the bill's textile & apparel provisions, which must be imperatively addressed if a meaningful result is to be achieved:

1) The duty-free treatment for 807A fabrics is most welcome since this is a sector that has steadily grown in the past few years, having a substantial employment capacity in addition to fostering a stronger relationship between U.S. and CBI private sectors; however, there is a need for safeguard clarification when reference is made to "bilateral

agreements", since the U.S. practice has consistently being that such agreements not only encompass GALs under the special access 807A program, but it also implies negotiating non GAL textile and apparel trade. A safeguard provision indicating that negotiations refers exclusively to GAL Trade clarification and not to other non GAL categories. Such certainly would dissolve any doubts or misconceptions that could arise.

2) We must call attention to the omission of preferential treatment for CBI indigenous fabric in H.R. 1233. This inclusion accompanied by the provision allowing the "Permissible foreign content" of 25 percent would enable local producers to take advantage of this benefit thereby increasing their production, resulting in greater job opportunities in the countries. Taking into consideration the historical and cultural tradition of the cottage industry in the region and the small productive capacity of local industries, granting duty and quota-free entry into the United States for said fabric in finished products manufactured from 100% indigenous material would be a real incentive and constitute no threat of market disruption to the U.S.

3) The provision for the utilization of foreign fabric is a welcome addition, however in our view Section 213A (a) (2) (A)ii, presents a cumbersome and lengthy mechanism for the

determination of which fabrics qualify to be included in the list. The dynamic nature of textile & apparel placement of orders must be kept in mind, in addition to the fact that a new investor in this area cannot afford to wait for six months to determine whether he or she will venture an investment while the list is being formed. Perhaps an alternative to the advisory committee mechanism could be contemplated, under which the International Trade Commission would draft such a list in full consultation with all concerned parties, allowing them to submit their viewpoints through public comments.

4) The CBI Embassy Group views with concern the 'Sense of Congress' provision in Section 213A (a) (7), and is surprised that such a clause be included in a bill that seeks to enhance trade opportunities. This provision seems to assume that there is a systematic unfairness in the manner CBI countries administer their quota distribution. Although random instances of such a practice may exist, there is not enough evidence that would warrant a Congressional directive in this regard. Furthermore, this provision could be interpreted as an infringement upon the national sovereignity of the CBI nations who, like any other country in the world including the United States, administer their textile & apparel programs according to their national interest and within the framework of the Multifiber

Arrangement (MFA). We feel this provision definitely sends the wrong signal, because of its discriminatory nature not only to the CBI countries who are the beneficiary in this bill, but to other parties involved in the textiles & apparel trade.

The CBI Embassy Group feels that Tourism should also be addressed given its importance to the economies of the region; perhaps amendments on this matter can be considered with the approval and support of the House Foreign Affairs Committee (which has jurisdiction on this matter). Specifically, a 'Sense of Congress' provision, emphasizing the importance of the tourism industry would help to raise awareness on this issue and provide a directive that this is a sector of upmost importance. The Department of Commerce should complete its pending 1987 study on this subject-matter, in addition to the establishment of technical and financial assistance programs through the Agency for Internationl Development (AID) and the Commerce Department for infrastructure development, marketing, & promotion, and training of personnel. The CBI Embassy Group is willing to work together with the U.S. Administration and the 101st Congress in determining practical courses of action to accomplish these goals.

Another area which in our view deserves serious analysis and consideration whose fundament was explained in the CBI Embassy

Group's position paper issued earlier this year, is the question of special treatment for the Eastern Caribbean and Belize. The Pickle report pointed out that small states need additional assistance in order for them to take full advantage of the benefits accorded by C.B.E.R.A. Efforts in redoubling promotional activities currently underway and being considered for the future by the United States should be undertaken, in addition to providing financial support for these nations to develop their small infrastructures and thereby be trade competitive. Although some of these alternatives might be outside the jurisdiction of House Ways & Means Committee, the CBI Embassy Group strongly recommends a 'Sense of Congress' which could read:

> "It is the Sense of Congress that, in order for the Eastern Caribbean States and Belize to benefit significantly from the Caribbean Basin Economic Recovery Act and enhancement legislation, that consideration should be given to a special aid and development package to assist these countries to develop their infrastructure, thus enabling them to compete for investment and trade"

The issue of Scholarships & Training is also very important to the Caribbean Basin nations since, without a well-trained work force, their opportunities to take full advantage of the trade benefits mentioned before are severely constrained. Through increased opportunities for Caribbean Basin nationals to gain practical and technical knowledge in institutions throughout the United States, the CBI beneficiary countries will be in a better position in their quest for economic progress, in addition to the obvious socio-political benefits that this entails. Human resources are absolutely necessary for the countries of Central America and the Caribbean as they strive to improve the living conditions of their people.

Finally, the CBI Embassy Group feels that consideration should be given to the possibility of including rule-of-origin provisions that could substantially benefit the region's trade. Parallels can be drawn to the recently-signed Canada Free Trade Agreement, where such provisions could be tailored to assist the Caribbean Basin in meeting the challenge before it. The details of this proposal could be worked out and incorporated into H.R. 1233, thereby strengthening its commitment to enhancing trade benefits for the region.

The CBI Embassy Group is pleased to constructively participate in this public comment phase regarding H.R.1233. It is our hope that this exercise will culminate with passage of CBI enhancement legislation in the very near future.

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STATEMENT OF THE CBI-II BUSINESS COALITION IN SUPPORT OF H.R. 1233, "THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

before the

SUBCOMMITTEE ON TRADE, HOUSE COMMITTEE ON WAYS & MEANS

March 31, 1989

Mr. Chairman, the CBI-II Business Coalition is an ad hoc group of American businesses in conjunction with the Association of American Chambers of Commerce in Latin America (AACCLA) and the Puerto Rico Economic Development Administration. Together, the business members of the Coalition account for hundreds of jobs and millions of dollars of investment in the Caribbean region. A current membership list is attached as an appendix.

The members of the CBI-II Business Coalition appreciate this opportunity to state for the record firm and enthusiastic support for swift passage of H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989. We look forward to working with the Subcommittee and the entire Congress to provide whatever assistance we can to ensure both the extension and expansion of this important program. In addition, to the extent further strengthening of the bill's provisions can be undertaken, we would welcome any such changes.

H.R. 1233 deserves the support of the Congress for reasons which can be best summarized in three categories. First, the CBI program serves the economic and security interests of the United States. As history teaches, the soundest security relationships are those based upon even sounder economic ties. With CBI, the Congress has recognized that to assist the nations of the Caribbean to develop into strong free market economies, the best foreign aid is the promotion of a long term positive climate for domestic and foreign investment. The positive investment climate promoted under CBI-I would be significantly improved by enactment of the many trade and production incentives contained in H.R. 1233.

Second, the CBI program serves the needs of the U.S. business community by removing barriers to the productive use of many economic resources possessed by our Caribbean neighbors. Under CBI-I, the provision of duty-free treatment was a significant step in this direction. The expansion of duty free treatment and the legislation of guaranteed access levels envisioned by CBI-II are advances with even more promise for U.S. investors. Most importantly, the elimination of CBI-I's sunset provision will substantially improve the climate for longer term investment throughout the region.

Third, the CBI program serves the internal needs of the Caribbean states themselves. Unlike CBI, traditional foreign aid packages often serve to create economic dependence and not economic independence. By contrast, the CBI program has promoted the economic independence of its beneficiaries through the creation of jobs, tax revenues for the development of infrastructure, and additions to the industrial base. Although significant development is yet required, the potential for that development to become reality is enhanced by the provisions of H.R. 1233.

While the U.S. should maintain a strong commitment to the continued growth and development of the CBI region, in reality, we also must recognize that such a process is, by necessity, a slow one. CBI-I raised great expectations that duty-free treatment of regional products would spark export led growth, as it had in the Far East developing countries and, in turn, the flow of U.S. goods to the region and CBI goods to the U.S. would show an immediate upsurge. In retrospect, these expectations were indeed inflated, and the critics of CBI have served as a continual reminder of this.

The critics, however, must recognize that many of the problems faced by the region when CBI was launched four years ago were beyond the reach of U.S. trade policy alone. Regional currencies were overvalued, governments were occasionally unwelcoming to foreign investment and business and labor were untested in a competitive global marketplace. In addition, infrastructure and transportation links were poor, and many countries in the region were experiencing political instability and civil strife.

Today, changing circumstances, prompted in part by government willingness to respond to the CBI, indicate that the region is better positioned to benefit from the expansion and extension envisioned by H.R. 1233. Currencies in the region have been devalued and governments are showing flexibility in dismantling regulatory impediments. Infrastructure problems persist, but are being addressed creatively by various methods including the construction of foreign trade zones. Moreover, the region is rapidly gaining comparative advantage as Far East wage rates and currencies rise. On the political landscape, the trend toward democratization in the region has gained momentum reflecting an overall increased commitment to free enterprise.

Lastly, any criticism or analysis of the CBI program cannot erase the measure's real achievements. CBI has succeeded in its chief objective of increasing non-traditional exports from the region. U.S. imports of such products have increased by a third since the program began. Although apparel trade is not covered by CBI benefits, growth in this sector has been impressive. Most importantly, the Commerce Department recently estimated that since the inception of CBI, $1.5 billion in new investment has been undertaken in the region, leading to the creation of 116,000 new jobs. The favorable attention given the region by CBI has no doubt aided in this growth.

In short, the members of the CBI-II Business Coalition believe that expansion and permanent extension of the CBI program are clearly in the interests of the United States government and the U.S. business community. We support H.R. 1233 as an appropriate and balanced measure to address many of the lessons of CBI-I, and as a measure adequately designed to build on the favorable course of events currently under way in the Caribbean region.

Once again, we thank the Subcommittee for the opportunity to express our strong support for H.R. 1233. We stand ready to consult with the Subcommittee members or staff on any aspect of this testimony or on suggestions any individual member of the Coalition may have for changes to the bill.

[BY PERMISSION OF THE CHAIRMAN:]

EMBAJADA DE COLOMBIA
WASHINGTON, D. C.

Nº 0327

RECEIVED
MAR 15 1989
SUBCOMMITTEE ON TRADE

March 7, 1989

The Hon. Sam Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Gibbons,

A little over a year ago, it was my privilege to write to you in connection with the then pending Caribbean Basin Initiative (CBI) legislation. Please find attached a copy of my letter. It meant to convey my country's concern regarding some provisions which, in effect, would have amounted to a CBI preferential quota on sugar.

A very similar concern leads me to write to you today, with reference to bill titled "Caribbean Basin Recovery Expansion Act of 1989", which you have introduced. If anything, such a concern is now even broader inasmuch as the bill would permanently hurt non-CBI countries, including Colombia, in their sugar exports to the United States. It well might directly impede their textiles and apparel sales, too, as non-CBI countries' exports are bound to be affected by the standing price, quantity and value provisions in the current bill.

As we did last time, we stand available to discuss these concerns with you and with your staff.

Yours truly,

Víctor Mosquera Chaux
Ambassador of Colombia

Enclosure: Our letter to you of 1st December, 1987.

cc: Economic Policy Committee
Trade Subcommittee

[SEE WAYS AND MEANS HEARING 100-64, PAGES 362-364 FOR THE DECEMBER, 1987 LETTER.]

STATEMENT BY CAMERON CLARK, JR.

on behalf of

THE COMMITTEE FOR PRODUCTION SHARING

Mr. Chairman, my name is Cameron Clark. I am submitting this testimony on behalf of, and as Honorary Chairman of, the Committee for Production Sharing. I also am President of my own firm, Production Sharing International, Ltd. of Fairfield, Connecticut. In addition, I serve as a member of the Caribbean Basin Business Promotion Council which serves the Secretary of Commerce and U.S. Special Trade Representative in an advisory capacity on matters relating to the Caribbean Basin Initiative.

The Committee for Production Sharing is a trade association of more than 140 U.S. manufacturers, processors, and associated firms which have joined together to foster the improvement of U.S. competitiveness by combining U.S. technology and content in cooperation with developing country labor skills and content.

The Committee was formerly known as the Committee for 806.30 and 807, Inc. prior to its reorganization into the Committee for Production Sharing. The Committee for 806.30 and 807, Inc., of which I was Chairman, devoted itself to supporting the concept and use of U.S. tariff items 806.30 and 807.00 which encourage production sharing operations between the United States and other countries and, in particular, the United States and developing countries.

The Committee for Production Sharing very much appreciates the opportunity to submit testimony on H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989", to the Subcommittee on Trade of the Committee on Ways and Means. In 1984 it was the Committee on Ways and Means which confirmed the importance of the concept of production sharing by amending President Reagan's CBI proposal to include the concept. Under the amendment, which became part of the statute, it was provided that in meeting the duty-free eligibility requirement of 35 percent local content, up to 15 percent of the appraised value of the product imported duty-free from a CBI beneficiary country was permitted to be the United States component cost or value. It was recognition of this principle which gave the Caribbean Basin Initiative the real impetus for success. In many cases, we found that this calls for a greater degree of manufacturing operations than under tariff item 807.00.

Before commenting on H.R. 1233, it is important to make some observations on the climate created for non-traditional investments under CBI I. A great deal of success can be attributed to the enactment of CBERA in 1984. Particular success in the light manufacturing sector can be noted in the Dominican Republic, Costa Rica, Honduras, and Jamaica. This testimony focuses on the light manufacturing sector. It is here that the Committee for Production Sharing believes the major successes have, since 1984, occurred, and it is here that we believe that focus on CBI enhancements should be in the future.

If we examine what has happened since 1984, we can see definite progress. One of the unique indicators which is not generally noted in any analysis is the degree to which nationals in CBI countries are investing their own capital in their own countries in projects which meet the CBI objectives of attempting to rebuild the economic basis of their respective countries. For example, the development of industrial free zones prior to the CBI were almost exclusive purviews of the respective CBI governments financed through world development financing institutions. Since 1984, we have witnessed an ever increasing interest on the part of private sector investors to invest in industrial parks in their own countries committed to attracting light assembly manufacturing under CBI, item 807 of the TSUS, and the General System of Preferences (GSP). Today this phenomenon of new confidence in one's own country is catching on at an ever-increasing rate. Today we see the private investors in the Dominican Republic and Costa Rica committed to selling the concept of projects which will attract foreign investment and create new employment and foreign exchange. The privately financed industrial free zone is this vehicle. They do so because they see opportunities to earn excellent returns on their investments. It is interesting to note in the United States International Trade Commission's 1987 "Annual Report on the Caribbean Basin Economic Recovery Act Impact on U.S. Industries and Consumers" that "the Dominican Republic and Costa Rica continued to be the leading CBERA beneficiary countries in 1987... The Dominican Republic and Costa Rica also ranked among the top three nations in the number of investment projects registered in 1987." This proves the old adage that it is the private sector which best creates employment and value. It is our considered judgement that it was CBI I which created the change in the investment climate.

It is also interesting to note that in the spirit of CBI I, the concept of Guaranteed Access Levels (GAL) for apparel produced under item 807 of the TSUS contributed significantly to the expansion of existing apparel sewing facilities and the establishment of new investments. In the Congressionally mandated DOC survey of November 1988, "Caribbean Basin Investment Survey", 642 investing companies were surveyed. It was noted that their total investments amounted to $1.6 billion and created a total of 116,000 jobs. Twenty-nine percent of these companies were in the apparel sector. It is also interesting to note that only 9 percent of the total investment dollars committed to projects in the DOC study were for the apparel sector. Yet those dollars created almost half of the jobs identified in the DOC study.

This performance in the Caribbean Basin apparel sector clearly demonstrates that the important strategy enhancements which must be emphasized in H.R. 1233 are those focused at building the apparel sector in the Caribbean Basin. It is our judgement that there is currently an opportunity to take advantage of a production redistribution process which is taking place in world sourcing and production consumer products. Costs and quotas in the Far East are causing buyers to look away from many traditional Far East sources. Much of that redirection of production can and should come to the Caribbean Basin. It is our observation that the DOC study of November 1988 is suggesting this when it reports the significant increase in apparel in CBI countries since 1984.

It is the opinion of the Committee for Production Sharing that significant progress has been achieved in moving toward the objectives established in CBI I. Our comments thusfar in this testimony have focused on the positive results generated since 1984. However, we have some concerns which need to be emphasized. The benefits under CBI I terminate on September 30, 1995. This, we believe, is an extremely inhibiting limitation and will seriously impact the economic growth sought. A U.S. manufacturer who might be considering the transfer of production from the Far East to the Caribbean Basin, for example, might be seriously hesitant when he realizes that the benefits which encourage him to consider this option expire in 1995. Therefore, the Committee for Production Sharing strongly supports the new repeal of the duty-free treatment termination date. This action will assure investors that the United States Government intends to stand by its commitment to support economic restructuring in the Caribbean and Central America.

H.R. 1233 calls for duty-free treatment of textile products entering the U.S. under Guaranteed Access Levels. The Committee for Production Sharing believes that duty-free treatment should be granted to all apparel and textile products produced under item 807.00 of the TSUS. We support the position taken in H.R. 1233; however, we believe that this does not go far enough. The benefits of duty-free treatment are significant. For example, studies made for the Agency for International Development in 1984 ("Comparative Analysis of Investment Factors for Production Sharing Ventures" - U.S. AID contract # LAC Regional 515-00190-00-339-0) which compared the cost of producing a given product in the Far East versus the Caribbean Basin showed that the Orient had a favorable cost advantage. One dozen men's dress shirts produced in the Philippines, with a landed cost in the U.S. of $51.43, if produced in the Caribbean Basin and entered into the U.S. under item 807.00 of the TSUS, would have had an average landed cost of $55.60 per dozen. Had duty-free access been considered in CBI I in

1984, that dozen shirts produced in the Caribbean Basin would have had a landed cost of $49.77. The effect of this duty-free treatment would have had dramatic impact on the countries of the Basin.

Since 1984, U.S. companies purchasing apparel textile products in the Orient have experienced some serious cost pressures. Transportation costs have been gradually increasing. Quota under the various bilaterals have come under considerable pressure. And finally, wage costs have been increasing as the majors in the Far East have shifted priorities to product of greater sales value. The combination of these factors has been favorable to the Caribbean Basin. The growth figures under 807 production show this. In 1986, apparel 807 imports into the U.S. from the CBI countries totalled $66 billion. In 1988 apparel 807 imports amounted to $1.98 billion. This dramatic growth can be attributed to Guaranteed Access Levels and should be considered a favorable condition for U.S. textile producers as GAL gives preferential quota treatment for apparel products made of U.S. fabric.

The consideration of duty-free treatment for textile products produced in the Caribbean Basin can be equally exciting for CBI countries. We have demonstrated the favorable cost effect of duty-free access for 807 apparel products from the AID cost studies conducted in 1984. If these figures were to be updated to 1989, the effect would be even more favorable.

The duty-free treatment of 807 apparel does several things which we believe have not really been considered in H.R. 1233. First, these apparel products would be landed in the U.S. at considerably lower costs than at present. This is a definite benefit to their U.S. consumer at a time when there is an increasing concern over inflation. Secondly, duty-free treatment considered in combination with GAL provides an advantage to U.S. textile producers of considerable magnitude. Having for years been placed in an unfavorable overall cost position because of lack of overall cost competitiveness of the end product, the U.S. textile industry would now find itself being able to serve its U.S. customers in the U.S. U.S. produced fabric, cut in the U.S. and sewn in CBI countries, would, in our judgement, bring new vitality to the U.S. textile industry while providing CBI countries with increased opportunity to attract new investment, develop new employment, and earn new, much needed foreign exchange.

The Committee for Production Sharing believes that a possible addition to CBI II could be modifications in the rules of origin which would encourage coproduction in the region. Current rules of origin militate inadvertently against such coproduction.

Under the current rules, duty is paid on the CBI content of a product containing American inputs in certain cases specifically if one of the following two criteria are not met.

- o CBI direct cost of processing is less than 20 percent of the value of the product
- o No substantial transformation takes place in a Caribbean country.

This militates against the use of American inputs in many of the production processes carried out in the CBI. It provides a competitive advantage to GSP imports from other regions which in most cases do not contain American inputs.

We respectfully suggest that CBI II be modified to allow full duty-free treatment to all imports under section 807 so as to encourage the use of American inputs. This would also encourage 807 production to be carried out in the Caribbean.

This proposal does not apply to apparel which we have covered in another section of our testimony.

We would also suggest that the Administration be required to negotiate with Canada common rules of origin allowing Caribbean Basin inputs to count toward origin in both parties to the free trade agreement. Thus if a combination of the American and Caribbean inputs met Canadian requirements for concessional entry under the FTA, the product would be eligible for FTA treatment even if the American input alone was insufficient. Similarly, the United States would allow entry under the FTA to such Canadian-CBI products.

Although not a subject in which the Committee for Production Sharing is seriously involved, we believe the matter of countervailing duty and antidumping is importantly addressed. We support the provision (Section 8) which creates a separate cumulation of imports of alike products under investigation only from CBI beneficiary countries as a group. Only if the U.S. International Trade Commission determines that such imports from CBI beneficiary countries injure U.S. producers would current law and sanctions apply.

It is important to recognize that CBI I originally envisaged that the matters of trade, aid, and investment would be addressed. Only trade and aid were included in the original CBERA. It is in the spirit of this intent that we believe H.R. 1233 is remiss in not addressing the matter of financing. At a time when President Bush is addressing the matter of Third World debt, we believe that H.R. 1233 should address the concept and opportunities presented through Debt/Equity financing. We recognize that the matter of sovereignty of CBI countries makes the decision a matter of their choice. However, we believe that U.S. Administration encouragement through the work done under AID assistance programs could help in developing the framework for Debt/-Equity financing in the Caribbean. This type of financing has two benefits. First, it converts debt from dollars to local country currency. And secondly, it provides an additional incentive for foreign investors to consider CBI countries.

In the last three years, we have witnessed the very positive role played by Puerto Rico in helping to advance the objectives of CBI I. The concept of "936 twinning" is becoming increasingly recognized as an advantageous approach to production sharing in the Caribbean Basin. In the Tax Reform Act of 1987, the House of Representatives supported the continuation of Section 936 on the condition that 936 funds be made available for economic development in the Caribbean Basin when they served the interests of both Puerto Rico and the CBI beneficiary country. This is, and will continue to be, an important CBI enhancement.

Despite the important role that Puerto Rico can play in furthering development in the region, it must be recognized that its leadership and its efforts will not be accepted or appropriate in some instances, nor are its 936 resources sufficient to meet the variety and magnitude of investment needs. Therefore, selective extension of section 936 should be made to specific areas of deepest concern. Such selective extension of section 936 type investment incentives in countries with the largest concentration of people, and where perceived risk problems require priority attention, would quicken the pace of economic development and balanced progress for the whole area. Such countries are El Salvador, Honduras, Guatemala, Costa Rica, Haiti, Jamaica, and the Dominican Republic. The degree of incentive can vary from country to country depending on perceived political risks and other qualitative assessments.

In testimony before the Subcommittee on Oversight of the Committee for Ways and Means on February 27, 1986, I stated:

"Based on my own personal experience, I am convinced that the potentials of the Caribbean Basin under policies of a mature Caribbean Basin Initiative can be depicted by the following estimated potentials in the next five or six years. My company estimates that the impact of this is:

- o that an estimated 250,000 new industrial jobs can be created under CBI, GSP, and item 807 based on exports that can be stimulated in the context of the free trade area with United States and other developed markets, e.g., Canada.

- each of these jobs will mean new foreign exchange of $5,000, meaning revenue earnings of at least $1.25 billion for the affected Caribbean and Central American countries involved.
- Experience has shown that these types of industrial jobs require an average of approximately 100 square feet of factory space for each job at an average cost of $20 per square foot for an estimated $500 million of new construction.
- With each factory job, an additional auxiliary job will be created."

In closing, the Committee for Production Sharing appreciates the opportunity to submit this testimony to the Subcommittee on Trade of the Committee on Ways and Means. It does so to emphasize the critical importance of the policies originally established under CBI I. Without a coherent and positive economic development strategy toward the region, the future for our neighbors would be bleak. Your consideration of the Caribbean Basin Economic Recovery Expansion Act of 1989 is critical to the partnership begun under CBI I. Our testimony highlights what we believe is essential for the furtherance of non-traditional economic development.

We congratulate the many members of Congress who have co-sponsored H.R. 1233. Their actions demonstrate the sincerity of the House of Representatives in helping to bring social, political, and economic progress to the Caribbean Basin. Should your Subcommittee find that the Committee for Production Sharing could be of assistance in the future, we would be pleased to respond.

Thank you again for this opportunity to participate in your efforts.

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March 31, 1989

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Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leopard:

Enclosed are six copies of the written statement of my client, The Costa Rican Private Sector Committee for Foreign Trade (Fundacion Para La Defensa del Comercio Exterior), on H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989. We would very much appreciate the inclusion of this statement in the written record of the hearings.

Please be sure to call me if you have any questions or concerns.

Yours sincerely,

Frank R. Samolis

Patton, Boggs and Blow is a registered Foreign Agent for Fundacion Para La Defensa del Comercio Exterior.

I. BACKGROUND

In 1983, beneficiary countries greeted the Caribbean Basin Initiative as a vehicle for helping to solve many of the region's worst economic problems--high unemployment, shortages of foreign exchange and heavy debt burdens. Above all, the first Caribbean Basin Economic Recovery Act has promoted enterprise-oriented development. Indeed, the CBI has confirmed that promotion of free enterprise presents the best opportunity for achieving genuine economic growth and prosperity for the region over the long term.

In the last five years, CBI beneficiary countries have experienced economic growth and social stability. The ability of beneficiaries to attract foreign investment and expand non-traditional exports are two of the most important results of the CBI program. Foreign investment has very positively affected total assets in the region and has significantly expanded employment opportunities. In addition, U.S. non-petroleum imports from the region grew by 23% between 1983 and 1987 (an average annual growth rate of 4.5%).

Equally important, the program has allowed the United States to maintain its leadership role in the region, while also receiving economic benefits. These benefits include:

- Expansion of U.S. exports of goods and services to the region;
- Increased capacity of CBI countries to service their foreign debt, which is mainly held by U.S. banks;
- Decreased flow of migrants to the United States as local employment opportunities increase; and
- Better prospects of decreasing the amount of U.S. economic aid.

The CBI has created a symbiotic, mutually advantageous, trading relationship, as increased regional economic output and exports are effectively tied to increased exports from the United States to the region. It has been estimated that over 50% of the value of all CBI imports is derived from U.S. materials and/or labor. Recent statistics from the U.S. Department of Labor conclude that on average, 70% of the value of CBI goods imported to the United States under the 807 program is derived from U.S. material and/or labor--in contrast to 807 goods imported from other countries, which reflect an average U.S. value of about 25%.

The Caribbean Basin is one of the few regions of the world with which the United States enjoys a trade surplus. The region is a major market for U.S. agricultural exports and is a net importer of U.S. consumer and industrial goods. The U.S. Department of Commerce has estimated that over 162,500 U.S. jobs depend on the $ 6.57 billion worth of U.S. exports to the Caribbean Basin.

The Costa Rican Private Sector Committee for Foreign Trade believes [illegible] mutually advantageous relationship should be continued and strengthened.

II. COSTA RICA'S POSITION

Costa Rica has fared especially well under the CBERA:

- Total non-traditional exports from Costa Rica have almost doubled since 1983; these exports now account for 49% of total Costa Rican exports to the United States, compared to 13% in 1983.

- In 1988, imports from Costa Rica accounted for 9.3% of total U.S. imports from the Caribbean, up from 7% in 1984.
- It is estimated that at least 12,000 new jobs have been created in Costa Rica since the CBERA's enactment.

The CBI II legislation before this Committee is, therefore, of special interest to the Costa Rican private sector. The following comments on specific aspects of the bill reflect the views of Costa Rica's 11 leading trade associations and chambers of commerce, which have united to create our Committee. We strongly urge the Congress of the United States to enact CBI legislation, and believe that HR. 1233, with a few amendments, will ensure the continuation of the economic and social well being promoted by the current program.

III. PRINCIPAL ISSUES

A. Extension of CBI

We would like to extend CBI in perpetuity. We therefore support the repeal in §3 of the CBERA's 1995 expiration date, but would also support a provision which required 12 years' advance notice of termination if Congress decided to end the program.

B. Application of Antidumping and Countervailing Duty Law

The provision of most immediate benefit to us would be §8, requiring the ITC to separately cumulate CBI exports in dumping and countervailing duty investigations in determining whether imports are causing material injury to domestic industries. Separate cumulation of CBI exports will not only restore the confidence of CBI beneficiaries in the U.S. Administration's commitment to create a stable Caribbean region, but will also promote the flow of American investment to the area. This provision will also satisfy the goal expressed in the Omnibus Trade and Competitiveness Act of 1988 that the CBI should not be weakened by its provisions.

Furthermore, we would support exempting CBI imports from the provision in the Omnibus Trade Bill which precludes the International Trade Commission from taking into account U.S. industry profits from coproduction operations when determining injury to U.S. producers. This exemption would minimize the possibility of finding that CBI imports cause injury in dumping and countervailing cases.

In addition, the Costa Rican Private Sector Committee agrees with the CBI Embassy Group that the development of an adequate export capacity in the CBI region requires direct assistance and investment in infrastructure from beneficiary governments. Such assistance should not be considered a subsidy under U.S. countervailing duty law. The lack of such an infrastructure makes operations "uncertain and difficult for foreign investors" who intend to invest in the CBI region. If such fundamental Government support is considered to be a subsidy, the majority of the CBI countries will always be condemned for unfair trade practices. Assessing duties for this type of program would adversely affect CBI development.

C. 100% U.S. Components

Of mutual benefit to the U.S. and the Caribbean region would be provisions allowing duty free and quota-free import into the United States of products which, although currently excluded from CBI treatment, are manufactured, assembled or processed exclusively from U.S. components and materials. We would also support duty-free treatment for articles incorporating a limited percentage of non-U.S. components.

D. Garments and Apparel

The Private Sector Committees agrees with the CBI Embassy Group in stressing the importance of the "tariff rate quota" provisions. These would allow limited duty-free treatment for Caribbean Basin apparel imports assembled from non-U.S. inputs. We also agree on the need to include some form of duty and quota-free entry of CBI garments made from non-U.S. or CBI fabric, particularly if these products are not under U.S. quota.

E. Tariff-Rate Quotas

We support a "tariff-rate quota" provision allowing a specified volume of goods in each product category currently dutiable under CBI to enter duty-free.

F. Omnibus Trade Bill Provisions

We believe the Ways and Means Committee should use the drafting of CBI legislation as an opportunity to offset the potential negative effects on regional exports caused by certain provisions of the Omnibus Trade and Competitiveness Act of 1988. The Committee should review the possible effects of these potentially harmful provisions, which include authority to the President to suspend CBI benefits indefinitely, Section 301 actions, and facilitated escape clause relief, particularly for perishable goods.

G. Rules of Origin

We would support the application to U.S.-CBI trade of rules of origin set forth in the U.S.-Canada Free Trade Agreement, which provides for exceptions to the substantial transformation rule.

H. Ethanol and Sugar

The sugar and ethanol industries are among the mainstays of Caribbean economies. With Costa Rica's Liga de la Caña, we wholeheartedly support §7's provision for a guaranteed minimum access level for sugar imports from CBI countries beneficiaries and preferential reallocation to CBI beneficiary countries of quotas unused by or withdrawn from other sugar-exporting nations.

In addition, we recommend passage of a special rule establishing that CBI ethanol imports to the United States contain a minimum of 20 per cent of CBI feedstock as determined by volume.

I. Tourism

The CBERA virtually ignored the economic opportunities presented by tourism, and even the provisions of H.R. 1233 do not squarely address the issue. (Sections 4 of the bill would raise the duty-free limit for purchases by U.S. tourists from $400 to

$600 and Section 9 would require U.S. Customs to establish preclearance facilities in the Caribbean.) Like the CBI Embassy Group, we believe the bill should indicate clearly that the U.S. Department of Commerce, AID and OPIC funding can support tourism projects in the CBI region.

J. Transportation

High rates and tariffs in the transportation of goods from CBI countries to the United States and other markets have proven to be an obstacle to the development of exports from the region. We hope the Ways and Means Committee will consider how to address the problem.

K. Section 936

We have great hopes that U.S. Internal Revenue Code § 936, allowing for use of so-called "936 funds" for investment in qualified Caribbean Basin countries, will lead to greater investment in Costa Rica. The Costa Rican private sector supports any mechanism that allows for access to "936 funds", so long as it is consistent with our legal system. We support both permitting the use of "936 funds" for any kind of investment in the region, and securing their future availability.

L. Scholarships and Training

We fully support the CBI Embassy Group's stand on this important subject, as expressed in its "Position Paper".

Mario A. Broutin G.
President
FUNDACION PARA LA DEFENSA DEL COMERCIO EXTERIOR

Samuel Yankelewitz B.
President
CAMARA DE INDUSTRIAS DE COSTA RICA

Juan R. Lizano
President
CAMARA NACIONAL DE AGRICULTURA Y AGROINDUSTRIA

Angel Nieto C.
President
CAMARA DE COMERCIO DE COSTA RICA

José M. Quirce L.
President
ASOCIACION COSTARRICENSE DE EXPORTADORES DE PRODUCTOS TEXTILES

Bernardo Dachner
President
CONSEJO NACIONAL DE ADMINISTRACION DE CUOTAS TEXTILES Y ROPA CONFECCIONADA

Maria Elena Chassoul
President
ASOCIACION NACIONAL DE FABRICANTES DE ROPA Y AFINES

Sylvia Fletcher
President
CAMARA DE EXPORTA-
DORES DE COSTA RICA

Federico Vargas P.
Director Manager
COALICION COSTARRICEN-
SE DE INICIATIVAS DE
DESARROLLO

Rodolfo Salas
President
LIGA AGRICOLA INDUS-
TRIAL DE LA CAÑA DE
AZUCAR

Victor E. Herrera
President
UNION DE CAMARAS

Carlos Araya
President
COSTA RICAN AMERICAN
CHAMBER OF COMMERCE

[BY PERMISSION OF THE CHAIRMAN:]

EMBAJADA DE LA REPUBLICA DOMINICANA
WASHINGTON

March 31, 1989

Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Room 1136 Longworth House Office Bldg.
Washington, D. C. 20515-6354

Re: Caribbean Basin Economic Recovery Expansion Act of 1989 (H.R. 1233)

Dear Chairman Gibbons:

I am pleased to transmit to you for inclusion in the record the comments of the International Sugar Policy Coordinating Commission of the Dominican Republic on the salutary effects of the provisions in H.R. 1233 relating to sugar imports.

In addition, the Government of the Dominican Republic believes that the bill contains a number of other provisions that will be beneficial to the Dominican Republic and other countries in the Caribbean Basin. The most important of these are the increase in the duty-free allowance for returning tourists; the establishment of a separate "cumulation" requirement for determining injury in dumping and countervailing duty cases; the increase in duty-free treatment for textile products under the Guaranteed Access Levels; the establishment of a tariff-rate quota for goods currently dutiable under the CBI (except for textiles and apparel); and the repeal of the 1995 termination date for duty-free treatment and making such treatment permanent.

Thank you for your consideration of these matters.

Very truly yours,

Eduardo A. León
Ambassador

BEFORE THE
SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
OF THE
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT
OF THE
INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC*

March 31, 1989

While H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989, contains a number of provisions that would benefit the Dominican Republic, Section 7 of the bill is the most significant for the Dominican sugar industry.

As Chairman Gibbons explained in his introductory statement on the bill, Section 7 "sets a minimum quota floor and quota reallocation for sugar imports from the region." (Congressional Record, March 2, 1989, at p. H505). This provision is important to the Dominican Republic and the other CBI countries because it would serve as a safeguard against a reoccurence of the worst-case scenario, the 1987 calendar year quota, when the Dominican Republic's sugar quota was cut to 160,160 short tons, which is less than 20% of the country's traditional exports to the United States. In addition, the bill would provide for small increases in the CBI countries' quotas by the reallocation of unused, suspended, or terminated quotas.

Importance of the Dominican Sugar Industry

As the International Sugar Policy Coordinating Commission has emphasized in its numerous past statements to the Congress, sugar is still the cornerstone of the economy of the Dominican Republic. Historically, ten percent of the population of the Dominican Republic has been dependent on the sugar industry for its livelihood. In the last decade sugar exports have accounted for thirty percent of the country's total export earnings. Even though the relative importance of the sugar industry in the Dominican Republic has decreased in recent years (due to the adverse conditions affecting it), its failure would, nonetheless, strike a mortal blow to the economy of the Dominican Republic and, perhaps, to the country's political stability.

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* The International Sugar Policy Coordinating Commission is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

The
Dominican Sugar Industry

The Dominican Republic is the principal foreign supplier of sugar to the United States, having a 17.6% share of the allocated quota. Until the early 1980s, the Dominican Republic maintained a fairly stable sugar production, with about 1 million tons, representing 80% of total production, available for export. Between 1975 and 1981 yearly shipments to the United States averaged approximately 805,000 tons. Since 1983, however, four sugar mills have closed down completely and the remaining twelve are presently operating on average at only 65 percent of normal levels.

Depressed Free Market Prices

For a number of years the world "free sugar market" has been overburdened by huge highly-subsidized surpluses from the EEC, the inelasticity of which has caused prices to drop to levels far below the price support levels in the United States.*

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* "It is important to understand that about 80 percent of global sugar production is sold under protected or preferential marketing arrangements. This means that free market forces act only on the remaining 20 percent. For that reason free market prices are highly sensitive to even small imbalances between world supply and demand. The result is that sugar prices in this residual market fluctuate widely.

At the present time [1982], the free sugar market is burdened by about 6 million tons of the EEC's highly subsidized surpluses which are exported in violation of GATT. This figure represents over 30 percent of the volume of the free market. The 1 billion dollars the EEC spends on export subsidies is an insignificant sum within the context of the EEC economy. The practice, however, is the source of great distress to developing countries that export to the free market by causing severe downward pressures on prices in that market." (Statement of Felipe J. Vicini on behalf of the International Sugar Policy Coordinating Commission of the Dominican Republic to the Subcommittees on International Economic Policy and Trade and on Inter-American Affairs of the House Foreign Affairs Committee, March 30, 1982).

This statement is still accurate, but the effect of the EEC surpluses on prices is even more pronounced today because the size of the "free market" has been reduced by the U.S. sugar quota program.

Although prices in the free market have rebounded from the lows of 2-3 cents per pound in mid-1985, to current prices of 11-12 cents per pound, the underlying structural deficiencies in this market still exist. The free market is highly volatile, with very brief periods of high prices, followed by long periods of extremely depressed prices. No producer in the world can depend substantially on the free market. In fact, in order to export on a regular basis to such a market, a producer needs a stable domestic or preferential export market to absorb the bulk of his production.

Effect of H.R. 1233

Section 7 of H.R. 1233 would make two important amendments to the U.S. sugar quota program: it establishes a minimum annual quota for CBI countries of 371,441 metric tons (409,439 short tons) for 1989 and subsequent years, and provides for the reallocation to CBI countries of unused, suspended or terminated quotas.

If this were to become law, the Dominican Republic would be entitled to a minimum annual quota of 204,287 short tons. This represents a positive step in the right direction, but it should be clear that it would not be enough, by itself, to guarantee viable market conditions to the Dominican sugar industry. Theoretically, these conditions could result if the major producing countries simultaneously made fundamental changes in their national agricultural policies that are responsible for the structural deficiencies of the free market. However, we all know such a prospect is not in the immediate offing, notwithstanding the declared objectives of the Uruguay Round of GATT Negotiations. Therefore, in order to eliminate the very real and palpable threat of extinction which the Dominican sugar industry will continue to face, it is essential that it recover its traditional levels of exports to the United States market. H.R. 1233 is a good first step in this direction.

Statement by

TEMISTOCLES RAMIREZ DE ARELLANO
President, Empacadero del Norte, S.A., San Juan, P. R.

submitted for the record

H.R. 1233

The Caribbean Basin Economic Recovery Expansion Act

My name is Temistocles Ramirez de Arellano. I am a U.S. citizen, presently residing in San Juan, Puerto Rico. During my working life of 40 years, I have had extensive experience in the Caribbean Basin, primarily in shipping and food processing.

I have done business in Canada, Puerto Rico, Antigua, Barbuda, Martinique, Saint Martin, and the Dominican Republic. For the past 25 years, my business has been between the United States and Central America, with operations primarily in Honduras, but also in Panama, Costa Rica, and Nicaragua.

I know the region, its culture and its unique problems and opportunities.

I applaud the efforts of this subcommittee to bring economic stability to the area. The United States is the most important trading partner for the nations of the hemisphere. The intent behind the Caribbean Basin Initiative is sound. We should do all that we can to assist our neighbors as they fight poverty and ignorance and develop and strengthen democratic institutions of government.

In this effort, however, the United States should not compromise its principles of human rights, due process and fair play. The United States should insist that those nations that are CBI beneficiaries adhere to these principles.

The United States cannot ask individuals and companies to invest in the region and then turn its back on them when the host government violates the terms of the CBI agreements.

The Congress addressed this problem in the original bill. Section 212(b) of the statute (19 U.S.C. 2702) stipulates that no country can be designated for CBI benefits if that country has a communist government or if that country has nationalized, expropriated or otherwise seized property owned by U.S. citizens without taking steps assuring prompt, adequate and effective compensation.

This section of the bill needs to be strengthened. As proof, I would like to relate the problems I have encountered during the past six years in dealing with the Government of the United States and with the Government of Honduras.

I first went to the northern coast of Honduras in 1962 and immediately saw the potential for starting a cattle and meat packing business.

During the next two decades, I literally carved a cattle farming operation out of the jungle. I experimented with different varieties of African star and other grasses, seeking just the right strains to build and improve my pasture lands. I acquired pedigreed cattle and began an extensive cross-breeding program with Brahman, Chianina, Indo-Brazil and other cattle that would thrive especially well in that part of the world. I lectured annually at Michigan State University about animal systems in the tropics. Graduate students from the university came each year to study at my ranch and to share their experiences with the local people.

Located in and around the town of Trujillo, this ranch now occupies 15,916.68 acres of land. It includes farm buildings, improved pastures, paved roads, electricity, deep-water wells and 62 miles of fences.

At nearby Puerto Castilla, a port on the Caribbean coast, I built a USDA-approved meatpacking plant capable of slaughtering, processing and freezing meat from 150 head of cattle a day. With this new facility available, neighboring Honduran farmers were provided a new market for their cattle. I later added facilities for quick-freezing 40,000 pounds of shrimp a day. With the world demand for seafood increasing, I began planning to expand this operation.

My businesses prospered. I was providing employment for some 400 to 500 Honduran nationals. My operations were providing the largest tax base for the City of Trujillo and the Department of Colon, the region of Honduras that is the nation's poorest. I was investing my time, my talent and my resources in this endeavor, putting into practice the philosophy advocated by the Kissinger Commission, members of this subcommittee and other experts who see trade and economic development as an essential ingredient for solving the chronic problems of Central America.

Suddenly, in the spring of 1983, without my knowledge or consent, a Regional Military Training Center (RMTC) was planned and built on a section of the ranch. This facility, built by the U.S. Corps of Engineers and staffed by U.S. Army Green Berets, provided for the training of Salvadoran troops as part of the effort to stabilize the fledgling democratic government of El Salvador.

Confronted with a _fait accompli_ and assured by U.S. and Honduran officials that the RMTC would cause little interference with my farming operations, I offered to cooperate with this effort. But the facilty soon outgrew the original designated area. My winter pastures were destroyed. Cattle disappeared. Stray mortar shells and wandering soldiers totally disrupted the operation of the ranch and the plant. My ranch hands and the other employes were intimidated by the military activities.

In short, my business in Honduras was destroyed. The economy of Trujillo was shattered. Hundreds of Honduran families who were dependent on the employment I provided returned to poverty. And I received absolutely no compensation for my losses.

For six years, I have sought relief through every possible channel, including the Honduran government, the U.S. courts, the Congress, the White House, the Department of State and the Office of the U.S. Trade Representative. I am caught between two governments. Indeed, your colleague, the Honorable Dante Fascell, chairman of the Committee on Foreign Affairs, said it best:

> "My assessment is that, if anyone is at fault, it is both the U.S. Government and the Government of Honduras. .... Regardless of where the fault lies, however, action is needed to rectify a wrong, to settle this claim, or to otherwise find an appropriate solution."

However, the U.S. Department of State continues to insist that the United States bears no responsibility; it says the fault lies totally with the Government of Honduras. Consequently, when Congress enacted the Caribbean Basin Recovery Act, I asked that Honduras not be awarded CBI beneficiary status because it was in violation of Section 212(b) of the Act, which prohibits expropriation or other taking without compensation of property belonging to U.S. citizens.

Several members of Congress, including Chairman Dan Rostenkowski and other members of the Committee on Ways and Means, wrote to Mr. William Brock, who was then U. S. Trade Representative, and to George Shultz, who was then Secretary of State, about my case. They pointed out the obvious discrepancy of awarding Honduras CBI beneficiary status while this case was unresolved. In response to their inquiries, Messrs. Brock and Shultz assured the congressmen that Honduras had agreed in writing to set up a procedure for settling this matter in a "prompt and adequate manner." Based on this paper promise, the United States Government certified Honduras as a CBI beneficiary on December 30, 1983.

That was over five years ago. The land that was once a prosperous ranch now houses a battalion of Honduran troops and is overrun with squatters, authorized to settle there by the Honduran military. I continue to accrue hundreds of thousands of dollars in expenses and legal costs, yet Honduras still has not settled my case. In spite of the supposedly clear-cut language of the original statute, the Department of State and the U.S. Trade Representative have taken no action requesting the President to remove Honduras from the CBI list.

While publicly offering to help facilitate a solution, the Department of State has consistently thwarted my efforts to resolve the matter. It proclaims to be a neutral observer, yet questions the value of the losses I claim. It has suggested that I submit myself to the jurisdiction of Honduran courts, even though the U.S. ambassador to Honduras and other legal authorities have written that the notoriously corrupt and inefficient judicial system is the weakest part of the Honduran government. When the Congress enacted legislation spelling out a time limit for negotiation and setting out a procedure for eventual arbitration of my claim by an agency of the Organization of American States, the State Department tried to overturn the law.

Honduras is an important ally of the United States. Yet the reluctance of U.S. officials to ensure that Honduras complies with the CBI statute is inherently unfair to our other nations in the hemisphere who have lived up to the letter and spirit of the law.

The Subcommittee on Trade is now considering H. R. 1233 and other amendments as it prepares to extend the CBI legislation for 12 years and to add other benefits such as increased sugar quotas. I urge you to include language in the new legislation providing stronger support for U.S. investors in CBI beneficiary countries.

Current policy is to continue "business as usual" when a dispute arises concerning a violation of human or property rights. Why not create a procedure whereby --after a reasonable time, say 90 days-- CBI benefits are suspended until a dispute is resolved? Unlike the current law, which has allowed my case to drag on for almost six years, such action would certainly provide an incentive for the beneficiary country to act.

I urge you to provide a mechanism that requires the automatic de-certification of any beneficiary country that fails to provide prompt, adequate and effective compensation for property taken from U.S. citizens or corporations. The current law permits certification if the beneficiary country says it is taking steps (including arbitration) to resolve disputes. But such paper promises are meaningless. The new law should provide for removing certification until compensation is made.

Thank you for allowing me to comment on the Caribbean Basin Economic Recovery Expansion Act. I would be willing to share documents and correspondence and to provide further information and assistance to the subcommittee concerning this important legislation.

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ENDICOTT JOHNSON
1100 EAST MAIN STREET
ENDICOTT, N.Y. 13760 - 607/757-4000

March 28, 1989

Honorable Dan Rostenkowski
Chairman
Ways and Means Committee
U. S. House of Representatives
Washington, DC 20515

RE: Caribbean Basin Initiative (CBI) Legislation, H.R. 1233/S.504

Dear Chairman Rostenkowski:

In an industry already suffering from an 82% import penetration level, the above bill recently introduced in the Congress will have a devastating effect on U.S. shoe production.

This bill would eliminate the duty-free exemption for footwear that has been a part of the CBI legislation since its original implementation in 1982, but retains the exemption for textiles/apparel. This is grossly unfair considering our import penetration levels are far higher than theirs, and are indeed far higher than when CBI legislation was first introduced.

Since the most labor intensive part of the shoemaking process is already in place in the Caribbean, it would not be difficult to begin finishing the shoes there as well; thus, the further erosion of jobs in the American manufacturing sector.

I urge you to act immediately to amend the bill to retain the duty-free exemption for footwear.

Thank you for your consideration.

Sincerely,

Charles C. Murray

Charles C. Murray
Chairman and CEO

CCM:mm

[BY PERMISSION OF THE CHAIRMAN:]

FECAEXCA
Federación de Cámaras y Asociaciones de Exportadores
de Centroamérica y el Caribe
– Fundada en 1985 –

Mr. Robert J. Leonard
Chief Counsel
Ways and Means Committee
U.S. House of Representative
Room 1102
Longworth House Office Building
Washington, DC 20515

Dear Mr. Leonard

The Caribbean Basin Economic Recovery Act (CBI) enacted by the United States Congress in 1983 signalled to the Caribbean Region the commitment of the United States to assist in the economic and social development of the countries, through the most stable, cost-effective, and far reaching mechanism of international cooperation: expanded trade based on mutual advantage. The Federation of Private Sector Export Chambers and Associations of Central America and the Caribbean (FECAEXCA) represents the organized private exporting sector of the Region, comprised of those businesses wich have movilized local and foreign resourses to take full advantage of the opportunities opened up by the CBI. We express our admiration to the Congress for initiating evaluations of the impact of the CBI, and proposing new legislation to enhance and extend the Caribbean Basin Initiative, known as "CBI II".

Our trading and investment experience with our U.S. partners has identified areas susceptible of improvement in the original CBI legislation. These changes, while entirely consistent with the intentions of the current law, are important additions which we feel will significantly assist the Region in achieving the objectives of short and long range growth in trade and stable economic development. We respectfully present to our esteemed friends in the United States Congress the following areas of particular interest and impact on the Region, to be considered in the 101th Congress's deliverations on the legislation affecting the Caribbean Basin.

I. PROVISIONS TO ENHANCE THE STABILITY OF TRADE

Possibly the single most critical area of the CBI is the potential for trade disruption, which undermines the gains of the CBI in existing business activities and promotes insecurity in future investors. Thus we respectfully request special consideration be awarded to the following provisions to enhance the stability of trade between our countries and the United States.

1a. Expand and articulate the provisions contained in the Trade and Competitiveness Act of 1988, known as the Omnibus Act, to exempt the Caribbean Region from apliccation of trade restricting procedures provided in the Omnibus Act. This exemption would be based in the special interests of the United States in the economic, social and political stability of the Region.

1b. Exclusion of CBI imports from cumulation with imports from other origins when determining injury in unfair trade practice proceedings.

Sede Regional: Apartado 213 - 2010 - Zapote, San José, Costa Rica – Telex 2449 COCOA, Fax: (506) 33-5331
Teléfono: (506) 24-4035

1c. Express CBI trade and development objetives to be in the interests of the United States on the basis of economic and national security considerations, thus reducing the possibility of restrains under Sections 201 and 301.

1d. Provide exemption to CBI countries from provision which allow imposition of quotas or duties on perishable agricultural products in escape clause cases.

1e. Exclude CBI imports from escape clause relief mesures when they represent less than ten percent of total U.S. imports.

1f. Exempt CBI imports from provisions which preclude the United States International Trade Commission from taking into account U.S. industry profits from coproduction operations in decisions on injury in U.S. producers

1g. Limit the duration of suspension of CBI duty-free benefits under the escape clause to three years.

1h. Provide for a mandatory ruling under a U.S.-CBI dispute settlement or consultation mechanism prior to reduction or withdrawal of CBI benefits for violation of commitments.

2 EXPANDED ACCESS TO THE CBI

The original CBI has limited trade in certain sectors of the economy of special impact to many of the poorest countries in the Region, as well as in areas which can expand production in a relatively short term, thus creating employment in depressed economies to expedite the process of economic expansion. Remedies to the most important of these omissions are suggested as follow

2a. Extend duty-free and quota-free treatment to products currently not covered made from U.S. inputs, allowing some margin for non-U.S. and non-CBI inputs, and treating CBI inputs as of U.S. origin for the purposes of U.S. content requirements.

2b. Provide limited quota-free treatment of preferential treatment for CBI apparel which does not qualify for quota-free entry.

2c. Express the sense of Congress that higher sugar quotas should be allowed to the CBI countries as part of the 1990 U.S. agricultural program.

2d. Adopt special rules of origin which do not contain substantial transformation requirements (similar to those contemplated in the U.S.-Canada treaty).

2e. Provide that the Office of the Trade Representative negotiate a modification in the U.S.-Canada Trade Agreement to allow CBI inputs to count toward origin requirements in both countries.

2f. Provide for a classification of origin in ineligible exports, for a specified and limited period, to allow for start up operations in which insufficient local content applies temporally.

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de Centroamérica y el Caribe
– Fundada en 1985 –

2g. Establish a definition of ethanol in such terms to facilitate the development of dehidration in the CBI region.

3 ENCOURAGMENT OF NEW INVESTMENT AND GROWTH.

3a. Extend the CBI indefinitely, with termination conditional to a twelve year's advance notice.

3b. Promote U.S. investment in the region by offering exemption from U.S. profits taxes derived from tax concessions offered by CBI countries , and by tax credits for direct private investment in CBI countries.

3c. Provide more flexible access to 936 and convention tax benefits to CBI countries adhering to the multilateral narcotics treaty outlawing money laundering.

3d. Require shipping conferences serving the CBI countries and the United States to mantain a rate structure proportionate with distance for freight calls to the Caribbean.

3e. Provide for a sense of Congress in support of tourism projects in the CBI, and authorize the use of Agency of International Development and Overseas Private Investment Corporation funding for tourism projects.

4. EXPEDIENCY IN TRADE POLICY

We respectfully suggest to the members of Congress the possibility that future CBI improvements be negotiated betwen the United States and the CBI Region within a framework that would contemplate Congressional "fast-track" consideration.

Finally, as representatives of the private exporting sector in our member countries, we endorse the content of the CBI Position Paper prepared by the Regional Embassy Group in Washington.

We apreciate very much the opportunity that the Unites States Congress provides to hear our respectful presentation, and reiterate the enormous hope our countries place on trade as a vehicle to stable economic and social development

ERNESTO RUIZ AVILES
PRESIDENT

SUPPLEMENTARY STATEMENT OF THE FOOTWEAR INDUSTRIES OF AMERICA, INC. (FIA) IN OPPOSITION TO H.R. 1233, "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

March 31, 1989

Under the umbrella group of the Leather Products Coalition, FIA has submitted a joint statement with other leather-related organizations to the Subcommittee on Trade that states in some detail our joint concerns about H.R. 1233. FIA is also filing these supplementary comments on an issue that we believe warrants the Subcommittee's special attention, and that is the fact that the domestic footwear industry has already made a direct financial investment in the Caribbean and a substantial contribution to the creation of thousands of footwear jobs there.

These footwear jobs are concentrated in the production of footwear uppers, the most labor intensive part of shoe manufacturing. As the attached news release from the Dominican Republic points out, "nearly two dozen U.S. firms have set up plants or are sourcing from contractors" in the Dominican Republic alone. As the news release also points out, some of these companies have twin-plant operations in Puerto Rico and the Dominican Republic that, according to one shoe company, have "made competitive pricing [with imports from other foreign sources] a reachable goal for American shoe companies." (See Attachment A.)

The production of footwear uppers is a booming business in the Caribbean. Just since 1983, the value of footwear uppers from the Caribbean have increased by 168 percent, rising from $34 million in 1983 to $91 million in 1988. The quantity of footwear uppers imported into the U.S. in 1988 exceeded 29 million pairs. (See Attachment B.) It is clear from the Dominican Republic's press release that it is elated by these developments.

We bring these facts to the Subcommittee's attention to make the following points:

1. The footwear industry is expanding rapidly in the Caribbean as is evidenced by the enormous increase in U.S. imports of footwear uppers, and it has been growing rapidly without the benefit of duty-free treatment on finished footwear.

2. The U.S. footwear industry has already made a substantial contribution to the creation of thousands of jobs in the Caribbean footwear industry.

3. Puerto Rico will be disadvantaged if section 5(b) of H.R. 1233 is enacted. Footwear production, which is now taking place in twin plant operations in Puerto Rico and the Caribbean, could shift entirely to the Caribbean if duty-free treatment is given to finished footwear from the Caribbean. Some regular production could shift from Puerto Rico as well.

Thus for these reasons and the important others, which are detailed in our joint statement, the FIA urges the Subcommittee to retain the current CBI footwear exemption.

ATTACHMENT A

NEWS FROM THE DOMINICAN REPUBLIC

For Immediate Release DR-289-1

FOOTWEAR EXPORTS FROM DOMINICAN REPUBLIC TO THE U.S. CONTINUE VIGOROUS GROWTH

Nearly Two Dozen U.S. Firms Have Set Up Plants or are Sourcing from Contractors

Dominican Republic footwear exports to the United States have grown vigorously in the past few years, as nearly two dozen U.S. shoe manufacturers have either set up their own plants, or are sourcing shoes and components from contractors in this Caribbean democracy of 6.5 million people.

Data for the first eight months of 1988 show that exports of two footwear components alone (leather and cotton shoe uppers) were valued at $50.1 million, and reached a volume roughly triple the figure of 1985. Also, the footwear industry here is beginning to "mature" and diversify into the production of complete shoes.

In most cases, the companies perform the labor-intensive hand sewing of shoe uppers in the Dominican Republic to take advantage of the competitive wages (the minimum wage is US$0.41 per hour, and US$0.60 includes fringe benefits). The shoes are then "bottomed" in the nearby U.S. Commonwealth of Puerto Rico and shipped to the continental U.S. for distribution. The production sharing arrangement with Puerto Rico allows eligible companies to qualify for 100% U.S. federal tax exemption, 90% Puerto Rico tax exemption, and quota free access to the U.S. market.

Shipments of leather uppers (TSUS 79127) in the first eight months of 1988, for example, were valued at $37.8 million. This was 27.3% higher than the same period in 1987, when total shipments of this item were valued at $49.8 million.

Production of cotton uppers (TSUS 38652) grew at an even more dynamic rate. By the first eight months of 1988, they had already reached $12.3 million, 61.8% higher than the figure for the similar period in 1987 (total shipments that year were valued at $13.2 million).

U.S. companies active in footwear production in the Dominican Republic include such well-known names as Timberland, Wolverine, Brooks, Lowell, Bass, Stride Rite, Endicott Johnson, Florsheim, Taurus and Kinney.

(cont.)

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Growth in footwear production is part of a general boom in manufacturing here, mainly in the country's 13 industrial free zones (known in Spanish as zonas francas). Another ten zones are being built, and eight more are in varying stages of development.

"Since 1980, the number of companies established in the free zones has increased from 71 to 212, and employment has soared from 16,440 to 82,820," says Antonio Caceres, President of the Investment Promotion Council, a private sector group based in Santo Domingo.

"Significant wage savings are possible," says Mr. Caceres. "Also, shoe firms and other manufacturers located in the free zones benefit from an environment that includes substantial tax, tariff and regulatory incentives. These include freedom from foreign currency holding and exchange restrictions, and unrestricted repatriation of profits."

Timberland Shoe Co. "started in the Dominican Republic about five years ago," says Sidney Swartz, President and Chairman of the firm, which is based in Hampton, N.H. Timberland has two plants in the Santiago Free Zone, where leather uppers are produced and finished into casual outdoor footwear at a "twin plant" in Puerto Rico. "No place is free of problems," says Mr. Swartz, "but generally the Dominican Republic is a nice place to be; we look forward to a long relationship."

American Sports Company is a contractor for several major brands, and is one of the country's major leather upper suppliers, says firm President Larry Putterman. Its plant is located in the San Pedro de Macoris Free Zone. The original workforce of 45 (six years ago) is now up to 900. Plans call for a new plant nearby, where some 200 workers will be added.

"We decided to locate in the Dominican Republic six years ago, for several reasons," says Mr. Putterman.

"First, there's the proximity to the United States and to Puerto Rico, which gives us ease of transportation by ship or air cargo. If there's a problem, we can come right down and work it out. When we call, we're in the same time zone.

"Secondly, there's the country itself. We feel comfortable doing business here. We discovered that we could blend labor costs in the Dominican Republic with wages in Puerto Rico and arrive at competitive prices for our products that match those of foreign producers in other areas. Twin-planting has made competitive pricing a reachable goal for American shoe companies."

"Then there's the workforce. Proper training is essential, but once that's done the quality is fine. The workers have a tremendous sense of pride."

(cont.)

Luis Benitez Jr. is Vice President and General Manager of G.H. Bass Caribbean Inc., which has a production sharing operation between Puerto Rico and the Dominican Republic. "The quality out of our factories," he says, "is second to no factory in the Far East."

"Our turn-around time is about one-third of what it would be from the Orient, and we find that the quality of our footwear is as good as that from the Far East," says Wayne Moore. He is Vice President of Manufacturing of NASCO of Puerto Rico and Domjet Industries of the Dominican Republic, subsidiaries of the New American Shoe Company, Inc., based in New York. Most of NASCO's uppers are made at two plants in the Dominican Republic.

"The footwear industry here has now begun to mature and diversify into the production of inputs such as leather, outsoles and complete athletic shoes," says Mejico Angeles, a footwear industry specialist with the Investment Promotion Council.

"Negotiations are currently underway," he says, "with several foreign firms in each of these product areas regarding possible joint ventures or wholly-owned plants."

Celso Perez, the local manufacturing licensee for Hush Puppies and Brooks Footwear, is one of the Dominican firms active in the diversification program.

"To diversify and expand the industry here, it is necessary to create an infrastructure of suppliers of unit-soles, plastic parts and other components," says Celso Manuel Perez, the company's research and development manager, who represents the third generation of his family to be active in the firm, which was founded in the 1930s.

The Dominican Republic is also seeking to expand its leather finishing capacity, since its three tanneries can barely meet current demand, says Mr. Angeles.

"Demand for finished leathers in the Dominican Republic is now reaching 70 million square feet per year. We are contacting tanneries in the U.S., Argentina and Brazil to interest them in setting up finishing tanneries here," he says.

Shoe firms operating in the Dominican Republic enjoy preferential access to the U.S. and other important markets via the Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI) and Item 807 of the U.S. Tariff Schedule. There are no quotas on shoe imports into the U.S. from the Dominican Republic. The CBI extends several benefits to shoe firms there, including complete duty exemption on leather shoe uppers exported to the U.S.

(cont.)

The Investment Promotion Council can provide additional information on duty rates applicable to specific items. It can also supply interested firms with a list of pre-screened, qualified producers and subcontractors.

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* * *

EXPORTS OF LEATHER AND COTTON SHOE UPPERS FROM THE DOMINICAN REPUBLIC TO THE UNITED STATES, 1985-1988, IN MILLIONS OF U.S. DOLLARS

Period	Leather Uppers (TSUS 79127)	Growth Rate	Cotton Uppers (TSUS 38652)	Growth Rate
1985..............	23.6	-	3.1	-
1986..............	21.1	-10.5%	10.5	+238.7%
1987..............	49.8	+136.0%	13.2	+25.7%
Jan-Aug. 1987.....	29.7	-	7.6	-
Jan-Aug. 1988.....	37.8	+27.3%	12.3	+61.8%

* * *

(Editors/Writers: For further details, or to arrange for trips by business writers to the Dominican Republic, contact Kal Wagenheim, Tel. 201-762-1565. Fax: 201-762-9585.)

ATTACHMENT B

Leather Uppers from the Caribbean

(000's of pairs)

Country	1988	1987	1986	1985	1984	1983	1982
Dominican Rep	7,103	6,732	4,844	4,297	3,169	2,313	2,211
Haiti	992	1,373	2,667	2,960	4,188	2,662	1,022
Costa Rica		56	26	94	79	4	*
El Salvador	3	24	69	19	5		1
Guatemala			5		1		
Panama						2	
Belize			27	3			
Bahamas			3				
Barbados	3						
CBI Total	8,101	8,185	7,641	7,373	7,442	4,982	3,234
World Total	27,353	26,515	26,065	29,217	23,384	14,898	10,757
CBI Percentage of World Tot	30	31	29	25	32	33	30

Leather Uppers from the Caribbean

(000's of dollars)

Country	1988	1987	1986	1985	1984	1983	1982
Dominican Rep	58,285	52,923	27,924	28,469	16,309	9,821	8,055
Haiti	8,234	6,779	14,380	17,833	24,515	17,564	4,907
Costa Rica	355	341	63	442	475	33	1
El Salvador	66	166	391	98	27		4
Guatemala			30		6		
Panama						15	
Belize			118	7			
Bahamas			12				
Barbados	4						
CBI Total	66,940	60,209	42,918	46,849	41,332	27,433	12,967
World Total	208,876	182,460	155,459	172,633	133,638	78,764	51,290
CBI % of World Total	32	33	28	27	31	35	25

Rubber/Plastic Uppers from the Caribbean

(000's of pairs)

Country	1988	1987	1986	1985	1984	1983	1982
Dominican Rep	28	196	326	170	163	131	
Haiti				24	181	27	449
El Salvador	442	1	0	20	308	120	34
CBI Total	470	197	326	214	652	278	483
World Total	28,260	23,969	35,009	17,985	12,195	10,961	7,093
CBI Percentage of World Tot	2	1	1	1	5	3	7

Rubber/Plastic Uppers from the Caribbean

(000's of dollars)

Country	1988	1987	1986	1985	1984	1983	1982
Dominican Rep	41	283	663	302	362	183	
Haiti				54	342	67	936
El Salvador	744	5		14	302	221	60
CBI Total	785	288	663	370	1,006	471	996
World Total	60,922	43,523	41,584	28,294	19,287	17,787	12,895
CBI Percentage of World Tot	1	1	2	1	5	3	8

Textile Uppers from the Caribbean

(000's of pairs)

Country	1988	1987	1986	1985	1984	1983	1982
Dominican Rep	19,846	14,863	13,690	6,744	7,273	5,715	3,779
Haiti			11		100	35	52
El Salvador	723	762	10				35
Guatemala		8					
Br. Virgin Is.		4					
CBI Total	20,569	15,637	13,711	6,744	7,373	5,750	3,866
World Total	27,474	21,655	18,760	10,430	11,880	8,417	6,708
CBI Percentage of World Tot	75	72	73	65	62	68	58

Textile Uppers from the Caribbean

(000's of dollars)

Country	1988	1987	1986	1985	1984	1983	1982
Dominican Rep	22,376	16,145	15,623	8,849	8,533	6,179	3,526
Haiti			58		158	67	107
El Salvador	982	1,077	19				29
Guatemala		25					
Br. Virgin Is.		2					
CBI Total	23,358	17,249	15,700	8,849	8,691	6,246	3,662
World Total	33,710	25,980	23,157	14,587	15,380	9,530	6,438
CBI Percentage of World Tot	69	66	68	61	57	66	56

Footwear Retailers of America
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PETER T MANGIONE
PRESIDENT

COMMENTS OF FOOTWEAR RETAILERS OF AMERICA ON "THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989" TO THE SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS

March 31, 1989

These comments are submitted by the Footwear Retailers of America (FRA) whose members account for approximatey half of all footwear sold annually at retail in the United States. In addition, our member firms manufacture, in their own factories, approximately 10 percent of total domestic footwear production.

We support duty free treatment of imports of footwear from Caribbean Basin Initiative-eligible countries. We do not believe that H.R. 1233 goes far enough. The bill would limit duty free treatment to an amount equal to 5 percent of total imports of footwear, and in all subsequent years, 103 percent of the base year.

These comments will demonstrate that duty free treatment will not harm U.S. production, but rather will shift trade from other countries and regions. Therefore, we do not believe that any limitation on duty free treatment of footwear is necessary or justifiable.

Should the Committee determine, however, that it must take the approach of the bill, we believe, since the bill embodies a permanent program, that a reasonable annual growth rate be added to the initial growth of 3 percent on the base of duty free imports. We believe that this annual growth rate should be in the range of 6 percent.

The reason for the introduction of H.R. 1233 was the recognition that the program had failed to reach the objective of expanded trade. In the words of Chariman Gibbons, the purpose of the legislation is to "address concerns that the current program has not achieved the positive results that were intended." 135 Cong. Rec. H506 (daily ed. March 2, 1989). Again, in the words of the Chairman, "the Caribbean Basin is a crucial region to the United States and its political and economic stability is a key component of our foreign and national security". *Id.* at H505. In view of the importance of the region to the United States for geopolitical reasons, and the failure of the current CBI program to achieve its objectives, it appears clear that the program must be expanded.

The principal reason for this failure was the arbitrary exclusion of almost every labor intensive manufactured product, including footwear, in which CBI countries could reasonably expect to compete and develop trade. The sponsors of this legislation are attempting to remedy this situation by a limited inclusion of these articles. While we believe the legislation moves in the right direction, in the case of footwear we see no reason not to go all the way and to provide a realistic incentive for the development of trade and economic development which is necessary to promote stability in the region.

It is very difficult to understand why footwear was originally excluded. This was a preemptive exclusion, not based upon any realistic threat from the Caribbean in the footwear field since there is practically no present capacity to produce for export. Of a total volume of imports of non-rubber footwear of 903 million pair, imports from all CBI-eligible countries were only 1.9 million pair, or only two-tenths of one percent (0.2%). In rubber/fabric footwear, out of a total volume of imports of 157,657,000 pair, imports from the CBI were only 811,000 pair, about one-half of 1 percent (0.5%). Thus, the exclusion was not based on an existing threat from imports but was in response only to conjecture as to what the effect of duty free treatment might be.

There are four principal points we wish to make:

(1) Duty free treatment for footwear under the CBI would not adversely affect U.S. manufacturers of footwear;

(2) Duty free treatment could assist U.S. manufacturers in further rationalizing their production and reducing costs by enhancing importation of uppers;

(3) Any shift in manufacturing would not be from the United States, but would come from other foreign suppliers; and

(4) Duty free treatment for footwear under CBI would provide a major benefit to United States consumers.

U.S. producers of footwear now account for only 18 percent of the total consumption of non-rubber footwear. Given the labor intensive nature of footwear manufacture, U.S. manufacturers have not been able to compete on the basis of price. Rather they have found niches in the market where they can compete on non-price factors, principally brand names, size and fit considerations, service, and specialized products.

The industry is successful in producing in the United States in particular product areas, for example, hand-sewn footwear and welt construction in the men's area, and in branded products in all areas including medium-priced women's footwear. It cannot, however, compete in the low-priced area or in athletic footwear where there is practically no U.S. production. They cannot compete in fashion-oriented women's leather footwear, and cannot compete in the make-up business with any great degree of success.

By the same token, imports have not been able to compete in those areas of the domestic market where U.S.-produced footwear has found secure niches.

Thus, imported footwear and domestically-produced footwear have become highly differentiated in the market by price, type of footwear, quality, retail outlet, and whether or not the footwear is branded or unbranded.

There is little direct price competition between imports and domestic production in most broad categories of footwear as there is a very large price disparity between imports and domestic production. For example, the average price for U.S.-produced non-rubber dress and casual shoes (leather and plastic) at wholesale in 1987 was $24.47 per pair. This compares to $11.75 at first cost for 1987 imports of men's leather shoes. Even adding duty and other costs of importation, the comparable cost to the $24.47 per pair U.S. shoe is only about $14.00 per pair. The disparity is probably even greater since the domestic men's price includes both leather and plastic shoes.

Elimination of duties in the non-rubber area of 10.5% for athletic footwear; 10% and 8.5% for leather footwear; and 6% for plastic footwear would provide no inducement for domestic manufacturers to move from these secure niches to the Caribbean.

On the other hand, we believe that some foreign manufacturers, particularly in the Far East, facing rising labor costs, increases in other costs and appreciating currencies could be induced by the duty elimination, in connection with other factors, to shift production to the Caribbean. This would benefit the area, but would not compete with U.S. production for the same reasons that existing foreign production cannot compete with such production in special niches.

In the rubber canvas area, the duties are extraordinarily high, ranging up to 67.5% *ad valorem* equivalent. Here we believe that elimination of these duties would make the Caribbean attractive for foreign producers and could induce a substantial shift in overseas production to the Caribbean. At the same time, it would neither induce American manufacturers to move production to the Caribbean or make them less competitive in their domestic production.

Again, as in the case of non-rubber footwear, this is because of an almost complete diversity in product and a lack of direct price competition in almost all segments of the market. U.S. producers of rubber/fabric footwear are producing substantially two types of footwear. One type is produced by the injection molded process and sells at wholesale in the range of $3-5. The other is more expensive vulcanized footwear which is sold by branded manufacturers, such as Converse, on a brand-name basis rather than on price.

There is practically no low-priced injection molded production overseas. Practically all of the cheaper footwear is made by the vulcanized process with a different quality and appearance. A substantial part of this is extremely low-priced footwear, primarily from China and Mexico, which is sold, even with the high duties, at prices well below domestic producers lowest prices for injected footwear of about $3. For China, the average unit value is $1.22, and for Mexico $1.40. An examination of imports on a TSUSA basis indicates that, in 1988, 93 million pair (out of total imports of 157.6 million pair) was imported at less than an estimated $1.50 per pair, with landed duty paid costs well below the selling price for the lowest priced U.S. injection molded footwear. U.S. production tends to be styled and of a higher quality than imports from China, which are cheap, vulcanized, mostly unstructured footwear.

An examination of import data indicates that most of the remainder of the imports are vulcanized footwear with a first cost of above $4.00 and landed duty prices of above $7.00 per pair, well above the price for domestic injection molded footwear. This higher-priced vulcanized footwear is selling in an area dominated by brand names, such as Nike and Reebok. The only U.S.-produced competition are other highly successful brand names, such as Converse, primarily with their Chuck Taylor model. This competition is not on the basis of price, but rather on brand name, styling and service.

While there may be some small area in rubber/canvas where there is some competition at the fringes, by and large, we believe there is little direct price competition in this area.

Were the duties to be removed, we believe Far East production would move to the Caribbean in the area of vulcanized production. Such production would not impinge on the bulk of U.S. production which is largely of the injection molded type. The most recent figures for 1987 show that out of total U.S. production of 67 million pair of rubber fabric uppers, 51.5 million was injection molded. Vulcanized production was only 11.8 million pair, and these, as noted previously, are almost all in the higher-priced ranges for domestic producers such as Converse.

We also believe that there would be no incentive for American manufacturers to move their injection molded production to the Caribbean. Production of injection molded footwear is mainly capital intensive, requiring large investments. It is highly automated, and is not a labor intensive process. Because unit values are so low and capital investment in injection equipment is so high, we do not believe, even with duty elimination, that foreign producers would invest in this machinery in the Caribbean. There would be no incentive for American manufacturers to move their production to the Caribbean from existing facilities because they are already cost effective and competitive.

It should be noted in this connection, however, that American injection molded footwear producers are producing uppers, which is a more labor intensive part of production, in substantial amounts in the Caribbean. Compared to production of 51.5 million pairs of injection molded footwear in the U.S., there has been an importation of 27.5 million fiber uppers from the world and 20.6 million pairs from the CBI alone. With duty elimination, we believe that this shared production, which allows American manufacturers to be more cost effective, will be enhanced.

There would be substantial savings to consumers. We are unable to calculate the exact amount in savings because it is not known what volume of footwear would be imported from the CBI. The calculated duties on all footwear in 1988 were 846.8 million dollars. Translated to the retail level (using a conversative 50% markup based on retail selling price) the amount paid by American consumers on all imports of footwear is in the range of 1.7 billion dollars.

This does not tell the whole story, however, because of the extraordinarily high duties on rubber canvas footwear. A $3.01 rubber canvas sneaker, for example, carries an ad valorem equivalent duty of 67%, or about a $2.00 duty. By the time this reaches the retail stores, the consumer is paying at least $4.00 in duty alone for a cheap pair of sneakers. These cheaper rubber canvas shoes are marketed in high-volume, low-priced stores like K-Mart and WalMart, which cater predominatedly to middle and lower-income consumers -- the least able to bear these high and unnecessary costs.

The co-sponsors of the bill are to be commended for recognizing the necessity of expanding CBI coverage to previously excluded products such as footwear which will not hurt American manufacturers, will benefit the CBI countries, fulfill the original intent of CBI legislation, and at the same time, benefit American consumers. We do not believe that the bill goes far enough, however, and would hope that the Subcommittee will improve the bill by considering our view that duty free treatment should be afforded on footwear without limitation.

STATEMENT OF THE HONORABLE JAIME B. FUSTER
TO THE COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES, CONCERNING H.R.1233
THE "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

My name is Jaime B. Fuster. I am the Resident Commissioner of Puerto Rico, the elected representative to the U.S. Congress of 3.5 million American citizens, on whose behalf I present this statement.

The motivations behind the Caribbean Basin Economic Recovery Expansion Act are admirable. We all agree that the countries of the Caribbean Basin need assistance in improving their economies and that, in some ways, the first Caribbean Basin Economic Recovery Act has not lived up to its initial promise. We share the concerns of the cosponsors of this bill, but we would be derelict in our duty to represent the people of Puerto Rico if we did not point out to the Congress the serious harm to three vital industries in Puerto Rico that would likely result from two provisions in the bill. The industries are apparel, footwear and leather products, and canned tuna. Together they account for 31 percent of all manufacturing employment in Puerto Rico.

In spite of the greater publicity that the high technology industries such as pharmaceuticals and electronics have received, apparel is still the largest employer in Puerto Rico's manufacturing sector. Its 33,600 jobs constitute 21.4 percent of manufacturing employment on the island, which is a greater proportion than in any state in the nation. Since Puerto Rico had an unemployment rate which averaged 15 percent in 1988--an improvement over recent years but still higher than any state--it should be apparent how vital these apparel jobs are to us. If employment in U.S. apparel is threatened by this legislation, Puerto Rico's concern should be the greatest because of the greater relative importance of this industry to us.

What is the nature of the threat and how great is it? Currently, under item 807 of the Tariff Code, an import duty is paid only on the foreign value added when a product is assembled using U.S. materials and shipped back to the United States. Section 5(a) of the bill would eliminate this duty as well for products made from foreign materials certified as unavailable in the U.S. when the material is cut in the United States.

As in the United States in general, Puerto Rico's apparel industry has been under enormous pressure from foreign competition over the past fifteen years. In 1973 we had over 40,000 apparel workers. It is a very labor-intensive industry in which labor costs are crucial for competitiveness. In Puerto Rico employers must pay the federal minimum wage, contribute to federal social security and unemployment compensation funds, obey all federal safety and environmental regulations, and transport all seaborne cargo in expensive U.S.-made flagships. None of these restrictions apply in the major Caribbean apparel-making countries where wages range from 13 percent to 27 percent of those in Puerto Rico. In the face of such disadvantages it is a tribute to the skill and dependability of the Puerto Rican worker that so many apparel jobs remain on the island.

But there are other important reasons why apparel continues to be manufactured in Puerto Rico. Chief among them is the tariff protection that they receive, protection which would be removed by this legislation. A couple of examples will illustrate the significance of the proposed changes. Brassieres containing lace, net, or embroidery are currently subject to a 32 percent duty. In existing item 807 operations an average of 34 percent of the value of brassieres is added in foreign countries. The average savings in duty from the proposed legislation would therefore be .32 x .34 = .109 or 10.9 percent of the value of the product. Not coincidentally, body supporting garments already have the highest proportion in the apparel industry of imports coming in under item 807 at 77 percent. Sixty-four percent of these come from the Caribbean already. From 1982 to 1988 the number of factories making brassieres and allied garments in Puerto Rico fell from 72 to 32 and employment dropped from 9,683 to 6,819. These remaining jobs and many like them in the apparel industry or connected to them elsewhere would be seriously endangered by the proposed 807 liberalization.

Employment in men's shirt making would similarly be threatened. The duty on men's shirts is 21 percent while the foreign value added in current 807 operations averages 60 percent. The duty saving from the proposed change would be .21 x .60 = .126 or 12.6 percent of the value of the product. Twenty-four factories employ 2,760 workers making men's shirts in Puerto Rico, and an additional 12.6 percent advantage for foreign competitors would seriously jeopardize those jobs.

We have been told that the U.S. apparel industry has nothing to fear from more liberal treatment of Caribbean imports because the latter constitute such a small part of total U.S. apparel imports. This argument carries little weight with respect to Puerto Rico's apparel industry. Puerto Rico's main competition with the Caribbean is as an alternative manufacturing site for U.S. companies. Some 75 percent of the employees in Puerto Rico's apparel industry work for subsidiaries of U.S.-based corporations. It is a fairly simple matter for these companies to abandon their facilities in Puerto Rico in favor of nearby Caribbean locations with much lower labor costs. A recent survey conducted by Puerto Rico's Manufacturers Association found that 96 percent of the materials used by local apparel makers come from the United States, which indicates how easy it would be for these companies to meet the requirements of 807 in other Caribbean locations.

The argument has also been made that the admitted loss of U.S. apparel jobs resulting from this legislation would be compensated for by the growth of textile-making and fabric-cutting jobs occasioned by the expansion of the Caribbean apparel market. Whatever the truth of this line of reasoning, these benefits would not accrue to Puerto Rico. The aforementioned Jones Act shipping restrictions make a detour to Puerto Rico for fabric cutting too expensive in most cases, and high electricity costs have virtually eliminated Puerto Rico's fiber and fabric industries.

This legislation, from our perspective, would greatly hasten a development that is already proceeding too rapidly, that is, the supplanting of the U.S. Commonwealth of Puerto Rico by the sovereign nations of the Caribbean as suppliers of clothing to the U.S. market. The extraordinary rate of increase, both absolutely and relative to Puerto Rico, of Caribbean exports to the U.S. can be seen in the following table:

Apparel Shipments to the United States from the C.B.I.
Countries and Puerto Rico, 1983-1988
(Millions of Dollars)

	1983	1984	1985	1986	1987	1988	% Increase
C.B.I.	376	470	617	788	1,104	1,428	280
Puerto Rico	614	699	716	616	500	549	-11

Source: U. S. Department of Commerce; Puerto Rico Planning Board
Puerto Rico data are for Puerto Rico fiscal years ending on June 30.

This table also vividly shows that, whatever the shortcomings of the Caribbean Basin Initiative to date, they have nothing to do with the apparel industry. This industry, in fact, is the stunning Caribbean success story of the 1980s and, as the record shows, is hardly in need of major additional encouragement to penetrate the U.S. market.

The case of the footwear and leather products industry is quite different. It is threatened not by the 807 measure but by a new "tariff rate quota" provision which would allow duty-free importation from the Caribbean of previously excluded items up to 5 percent of the current U.S. global imports of the item. Since this is far more than total Caribbean leather and footwear production currently, the provision amounts to an open-ended invitation to C.B.I. countries to send all they can produce to the U.S. The saving by C.B.I. competitors of duties that range from 10 to 20 percent in most cases would put the 7,700 jobs in Puerto Rico's leather and footwear industry in serious jeopardy. Ironically, this is an industry which, because of the economics of twin-plant production, might even expand in Puerto Rico as a result of the proposed 807 provision which is so deadly to domestic apparel. The tariff rate quota, however, completely undercuts such possibilities by encouraging all production to take place in the C.B.I. location. For the same reason it also undermines substantial existing twin-plant manufacturing in Puerto Rico of footwear and leather products.

Tuna canning is also threatened by the tariff rate quota although in this case the threat is more of the foot-in-the-door variety. Since the five canneries in Puerto Rico supply the preponderance of domestically-canned tuna in the United States, the 5 percent of current imports that would be permitted free of duty represent the output of only one Puerto Rican cannery of moderate size. However, C.B.I. countries in Central America have a distinct locational and labor-cost advantage over Puerto Rico, and this initial tariff incentive representing a saving in duty of 12.5 percent could encourage the emergence of serious competition from the region. Tuna canners located in Thailand and other Far East countries have been taking a growing share of the U.S. canned tuna market even without such special tariff breaks. The 7,500 jobs in Puerto Rico's tuna canneries are all in the cities of Mayaguez and Ponce which have experienced substantially higher unemployment rates than the island average in recent years.

We present these facts to the Congress in spite of our sincere desire to support whatever measures, within reason, will promote the economic development of our neighbors in the Caribbean. We need no greater reminder of the desperate economic circumstances of many of the residents of nearby islands than we get from the growing number of illegal aliens who have been making their way to Puerto Rico, often in the face of dangers as great as those encountered by the "boat people" of Southeast Asia. At the same time we want to make sure that the Congress is thoroughly aware of the likely consequences for Puerto Rico of the actions being contemplated. Puerto Rico, with 62.4 percent of its population living below the U.S. poverty level according to the 1980 U.S. Census, also has more than its share of needy people. More than anything these people need jobs. The two customs duty provisions of this bill that we have discussed would almost certainly reduce the number of jobs in Puerto Rico, perhaps drastically. We should hope that the proponents of these measures are prepared to deal with the unhappy and expensive consequences for Puerto Rico and the nation.

As we observed at the beginning of this statement, Puerto Rico's unemployment rate has been heading downward in recent years. Undermining the island's labor intensive industries would certainly reverse that trend and put new demands on social services, many of which are federally funded. Pressures on the impoverished to leave Puerto Rico would also rise, placing strains on social services in other locations. Preservation of existing employment is much to be preferred, and we should hope the Congress would give this first priority by reconsidering section 5 of the Caribbean Basin Economic Recovery Act.

HSPA
HAWAIIAN SUGAR PLANTERS' ASSOCIATION
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Eiler C. Ravnholt
Vice President

March 31, 1989

The Honorable Sam Gibbons
Chairman
Subcommittee on Trade
Ways and Means Committee
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I wish to comment on Section 7 of H.R. 1233, the Caribbean Basin Economic Recovery Act of 1989. This provision marks a major improvement over the sugar section of the Caribbean Basin Improvement Act introduced in the previous Congress and to which I testified in opposition at hearings before your subcommittee last September. We appreciate the recognition accorded our concerns in this revised version. Much as we would like to extend our full support for this revised measure, we find such support must be withheld, however, pending some additional changes.

Our industry has long recognized the right of our workers to organize and to bargain collectively and our workers' organizations are vital to our industry's future. In seeking to promote the economic welfare and political stability of a region through offering an assured market for sugar at the U.S. support price, we believe it is essential that such assurance be made conditional upon a meaningful recognition of workers' rights in the participating countries of the region. Such recognition of workers' rights is currently contained in the GSP statute and that provision needs to be extended to H.R. 1233.

To those living in the Southeastern United States, the Caribbean region has a special significance. The people of the region are viewed as near neighbors whose problems are of particular concern. Living in the Mid Pacific, as we do, conditions our view and we find an equal concern for the political stability and the economic welfare of the Philippines. Many who work in the sugar industry in Hawaii are from the Philippines or are the children or grandchildren of workers from the Philippines who did so much to build the sugar industry in Hawaii. Moreover, our defense establishments in the Philippines are the front line of our defense in the Pacific. Our support must therefore be conditional upon full equality for the Philippines with the CBI countries under the provisions of Section 7 of H.R. 1233.

Finally, support of our industry for your measure must remain contingent upon a continuation of our current sugar program. We are very much aware of the need for price stability in our industry. Unlike many field crops, we cannot shift from producing sugarcane to the production of an alternative crop in response to the short term price outlook. As a biannual crop, with new plantings every sixth year and with heavy investment in specialized equipment and mills, we must stay in sugar, year in and year out, or discontinue permanently. We are, therefore, sympathetic with the needs of producers in other countries for an assured market at a stable price and we are anxious to support that opportunity when such support does not endanger our economic welfare and own survival.

Sincerely,

Eiler C. Ravnholt

Eiler C. Ravnholt

Statement On Behalf Of
Inner Secrets, Inc. Of Hoboken, New Jersey,
In Support Of H.R. 1233,
The Caribbean Basin Economic Recovery Expansion Act of 1989

This statement is submitted on behalf of Inner Secrets, Inc. of Hoboken, New Jersey, in support of H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989.

Inner Secrets is a leading manufacturer of brassieres and girdles. Inner Secrets has a manufacturing/assembly plant located on the island of St. Lucia. This facility, operating under the name Belle Fashions, is currently the largest employer on the island of St. Lucia. Since the inception of this operation, Inner Secrets has undertaken a number of plant expansions.

H.R. 1233, as currently drafted, would expand the current duty-free treatment of exports from the Caribbean basin region which was originally provided by the Caribbean Basin Economic Recovery Act of 1983, or "CBI," as it is commonly referred. Inner Secrets strongly supports the provision of Section 5 of H.R. 1233, which would permit duty-free treatment under negotiated Guaranteed Access Levels for certain articles assembled from U.S. materials in the Caribbean basin countries. This is precisely the type of operation which Inner Secrets currently utilizes with its Belle Fashions facility. Inner Secrets ships U.S. materials from the United States to St. Lucia, where the U.S. materials are assembled into brassieres and girdles. If the United States was to provide duty-free treatment to such articles, it would enable Inner Secrets to further expand its facility, which would benefit both United States suppliers and workers on the island of St. Lucia.

Inner Secrets strongly believes that the enactment into law of H.R. 1233, which would make the CBI program a permanent feature of U.S. law, would improve the effectiveness of the CBI program and build greater confidence in U.S. industry in that region. It would definitely create greater business certainty, and also provide a long-term investment climate which would lead to economic prosperity in that region. It also follows that there would be greater political stability in the region, which obviously is extremely significant to the interests of the United States.

On behalf of Inner Secrets, we are pleased to submit the above comments in support of H.R. 1233. If it is so desired by the Subcommittee on Trade, or the Committee on Ways and Means, representatives of Inner Secrets would be available for questions or additional comments.

Respectfully submitted,

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Attorneys for Inner Secrets, Inc.

March 30, 1989

STATEMENT OF
E. LINWOOD TIPTON, PRESIDENT,
INTERNATIONAL ICE CREAM ASSOCIATION AND MILK INDUSTRY FOUNDATION
ON H.R. 1233 "THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT OF 1989"

The International Ice Cream Association and the Milk Industry Foundation oppose Section 7., Sugar Imports From Beneficiary Countries, of H.R. 1233, "The Caribbean Basin Economic Recovery Act of 1989" because it addresses a symptom of a larger problem, rather than addressing the problem itself, the U.S. sugar program, and it is not in the best interests of the CBI countries.

The International Ice Cream Association is the trade association for manufacturers and distributors of ice cream products and a variety of other frozen desserts and snacks. Member companies manufacture an estimated 85 percent of the ice cream and related frozen dessert products consumed in the United States.

The Milk Industry Foundation is the leading trade association for processors and distributors of fluid milk and milk products in the United States. An estimated 80 percent of the nation's milk supply is used by Milk Industry Foundation member companies in the production of a variety of products including: beverage milk, yogurt, cottage cheese, sour cream, dip, eggnog, and cream.

The availability of an adequate supply of sugar at a reasonable price is an important issue for members of both associations who use sugar in many products, from ice cream and other frozen desserts to flavored milks and yogurt.

Since 1985, the sugar import quota has been used as the primary mechanism for enforcing the "no cost" to the federal government provision of the sugar program. Domestic cane and beet sugar producers have increased their output under this program due to the high support price set for sugar. To compensate for increasing domestic production, the import quota has decreased each year. In 1984 (quota year from 9/26/83-9/28/84) the total sugar import quota was 3.2 million tons, of which the CBI countries' share was 1.1 million tons. The total 1989 quota is approximately 1.2 million tons, and the CBI share is 395,663 tons.

Declining income from sales of sugar to the U.S. has exacerbated economic problems and contributed to political unrest in many of the CBI countries, who are important trading and strategic allies for the U.S. Thousands of jobs have been lost because of decreased U.S. demand for sugar. CBI countries earned about $494 million on their quota sugar in 1984. In 1989 they will earn only $174 million. And, as sugar income has decreased, U.S. aid to CBI countries has increased to a total of $945 million in 1987.

Locking in the current sugar import quota levels for CBI countries will not be enough to restore economic prosperity to the region. The entire U.S. sugar program should be revamped to increase sugar imports and reduce the domestic support price. Our trading partners in the Caribbean Basin will benefit more from greater access to the U.S. market than from direct aid.

As long as the current sugar program is in effect, the sugar import quota will continue to shrink, eventually eliminating all sugar imports. At that time, the U.S. market will be closed to sugar imports from Caribbean nations, whether H.R. 1233 is adopted or not.

Rather than addressing symptoms of a faulty program, Section 7 of H.R. 1233 should be struck. Legislation to correct the entire U.S. sugar program, such as H.R. 1055, "The Sugar Supply Stabilization Act of 1989," introduced by Representatives Downey and Gradison, should be adopted.

INTERNATIONAL ICE CREAM ASSOCIATION & MILK INDUSTRY FOUNDATION
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Before the Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives

STATEMENT OF
JAY MAZUR, PRESIDENT
INTERNATIONAL LADIES' GARMENT WORKERS UNION, AFL-CIO
ON H.R. 1233
THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT

March 30, 1989

This statement is submitted by the International Ladies' Garment Workers' Union on behalf of our approximately 200 thousand members who are employed in the production of women's and children's apparel and accessories. With regret, and for the reasons stated below, we must oppose the proposed changes in the Caribbean Basin Initiative Program that are set forth in H.R. 1233.

I know that many of the bill's sponsors have a genuine desire to help our neighbors in the Caribbean, as indeed the ILGWU does. But, if we are to assist Caribbean development, major attention should be directed at improving the physical infrastructure in these nations, improving education, housing and medical care, and advancing the incomes and living standards of workers. Unfortunately, H.R. 1233 will not accomplish these goals. These critical elements are absent in the current bill.

When first enacted in 1983, CBI had a broader scope. It contemplated a package of assistance to the area, one that contained more than mere duty-free treatment of certain CBI exports to the U.S. It included tax benefits to stimulate investment and, most important, a foreign aid program to help these underdeveloped nations build a modern infrastructure.

Many of the original features of the program have fallen by the wayside as is evident from a review of the major provisions of H.R. 1233. In an effort to make up for the failure of the program to accomplish its desired ends, H.R. 1233 now relies to the largest extent on duty-free shipments of apparel.

Except peripherally, H.R. 1233 will not lead to economic development in the Caribbean, but most certainly will accelerate the destruction of the domestic apparel and textile industries and result in a further loss of critically needed jobs in the United States.

The failure of the CBI program, the extension of which is now contemplated, cannot be reversed by extending it indefinitely. Nor can it be solved by expanding it in such a way that it puts the major burden of the program on the backs of an already hard hit domestic industry and its workers.

Of the CBI's basic failure there can be little doubt. It has had a dismal record over the past five years. Except for 1984, the customs value of all products shipped from CBI countries to the United States has declined in each and every year. Annualized 1988 shipments (based on data for the first 11 months of the year) reached a new low of $6.1 billion, down 29 percent from its 1983 level of $8.6 billion.

In contrast to the overall slump in shipments, U.S. imports of apparel from CBI nations have been booming even though such shipments have not been granted the duty-free treatment generally available under the CBI program. Apparel imports from the Caribbean have risen from $388 million in 1983 to $1.4 billion in 1988, an increase of 269 percent. Apparel accounted for more than 23 percent of all CBI country shipments to the U.S. last year, up from less than 5 percent in 1983.

If apparel shipments are not counted, the value of CBI shipments of other products has declined 43 percent since 1983. Not only have apparel shipments from the CBI grown rapidly in the past five years, they have outstripped, in terms of percentage growth, apparel shipments from the rest of the world. While the value of shipments to the U.S. of CBI-origin apparel grew 269 percent between 1983 and 1988, shipments from non-CBI countries advanced 114 percent. In 1988, CBI shipments of apparel rose 31 percent while those of the rest of the world rose 1 percent, largely related to a depressed domestic apparel retail market.

From the point of view of the U.S. garment worker, the fact that imported apparel comes from one low wage country rather than from another is of little significance. In either case, there is a loss of jobs and job opportunities in the U.S., jobs badly needed by workers with few other job alternatives.

The 1980s have witnessed an avalanche of apparel imports flooding into the U.S. market from all parts of the globe. Total apparel imports (as measured in customs value) more than doubled between 1983 and 1988. As a result, the percent of U.S. domestic consumption accounted for by imported apparel has grown from 37 percent in 1983 to 60 percent in 1988.

Since 1983, production worker employment in the apparel industry has fallen by 7.6 percent, representing a loss of some 74,000 jobs. While not all of the apparel jobs lost during the last five years can be attributed to the greater access to our markets provided by the CBI program, many were.

Let me reiterate for the record that our union feels a special tie to the nations of the Caribbean. Many members of our union have emigrated to the United States from these countries and still have family members in the region. These bonds of kinship have heightened our concern over the poor economic conditions that many people in the Caribbean confront daily.

As a good neighbor and as one of the world's most affluent nations, the United States has a special moral obligation to assist countries in the Western Hemisphere that are experiencing difficult economic circumstances. As the leader of the free world, we have an added responsibility to assist the emerging democracies of the region that are in a critical stage of their political development. Moreover, given the region's proximity to the continental United States, its effect on our security is self-evident.

Thus, our union does not gainsay the importance of the region to our nation's wellbeing or security. We have, however, been opposed to the CBI program since its inception. Our opposition stems not out of a lack of concern for the region, but from a sincere conviction that the CBI program is poorly designed to accomplish the task of promoting economic development.

The CBI program provides the illusion of advancing the prospects for long-term economic growth in the region, while diverting attention and efforts away from more effective methods of accomplishing this task -- e.g., helping them improve their educational systems and their physical infrastructure.

Most of the profits earned from the increased production in the CBI countries of apparel for export are not ploughed back into the local economies. Instead, they are repatriated by the foreign corporations, including U.S.-based companies, that have set up factories to manufacture and export garments.

Very little of the profits generated by the increase in CBI apparel exports has "trickled down" to the workers manufacturing these garments. Free trade unions are largely unknown. Labor practices outlawed here in the U.S. exist in many of the countries in the region. Sweatshops and child labor are prevalent.

The wage levels received by most apparel workers in the CBI countries are extremely low. For example, in 1988, we estimate that garment workers in the

Dominican Republic (the leading exporter of apparel products to the United States among the CBI countries) earned on average $0.44 per hour, approximately one-seventeenth the rate received by garment workers in the United States.

The foreign firms operating in the CBI region are not committed to the long-term economic development of the CBI countries. They are not acting in the best interests of the people in the region. Their chief concern is profit. They would just as soon pack up and move their businesses to another region of the world if they could make a bigger profit. In fact, much of these firms' apparel was made in the Far East before they relocated production to the Caribbean.

The legislation in question, the Caribbean Economic Recovery Act of 1989, would exacerbate conditions in the domestic apparel industry. While we oppose many provisions in the bill, especially troublesome is new Section 213A that would provide duty-free entry to the U.S. for certain garments whose parts are cut in the United States, even though these garments are highly import sensitive.

Allowing duty free entry for CBI apparel undercuts all U.S. efforts of the last three decades, no matter how ineffective, to prevent the total destruction of a key domestic industry. And H.R. 1233 does this without providing any assurance of genuine lasting aid to the Caribbean area or any concern for domestic workers and their employers.

While the bill purports to limit the amount of duty-free apparel that can enter the U.S. from the CBI area, a careful examination of its provisions and government practice make it clear that the door has been opened to virtually unlimited shipments.

Let me examine some of these provisions in detail.

The duty-free provisions being extended to apparel are seemingly intended to apply to garments made of U.S. formed fabric to engender support from the U.S. textile industry. Several provisions counter this concept. One-fourth of the component materials of a garment can be of foreign origin simply by being labeled "findings and trimmings".

More important, the requirement that fabric be of U.S. origin is vitiated by the provision that foreign fabric can be substituted when the Secretary of Commerce finds that a given fabric is not formed in the U.S. or is formed in the U.S. but is in critical shortage. Since the garment manufacturers seeking the fabric exception can couch their request in such a manner that the Secretary will almost be required to permit an exception, this will quickly become a massive loophole.

Years of experience with the adminstration of foreign trade law and regulation have clearly demonstrated the resourcefulness of the importing community in finding ways to get around any impediments in their path. Does anyone for one moment doubt that garment importers will suddenly find a need for "new" fabric types that differ in only the minutest manner from U.S.-made fabrics and claim exemptions under the statute. The issue, as all of us know, is that foreign fabric is cheaper than U.S. fabric, not that it is better or more unusual.

The influx of Far Eastern companies to the Caribbean represents an attempt to gain a outlet for Far Eastern fabric just as much as it does an attempt to gain additional footholds in the apparel markets of the U.S. There will a concerted drive to gain exemptions for as much foreign fabric as possible, undermining in the process the jobs of American garment and textile workers.

Thirdly, the bill requires that duty-free treatment be granted only to garments covered by a bilateral agreement between the U.S. and the CBI country involved. This seeming limitation is hardly any limit at all. Ever since President Reagan announced the Caribbean initiative on his visit to Grenada, it has been clearly announced Executive Branch policy to provide as much quota for garments made of U.S.-cut-and-formed fabric as the exporting countries desire.

In addition to contributing to a further loss of apparel and textile employment in the United States, the duty-free provisions would cause a substantial revenue loss to the U.S. Treasury and help increase our nation's budget deficit.

At a minimum, if the Congress wishes to aid the CBI area by rewarding it with additional apparel quota, it should find a way to do so without further destroying the U.S. industry.

One way to accomplish this would be to reduce by negotiation, as was done by STR in the summer of 1986, apparel exports from the three newly industrialized countries (NIC's) in Asia -- South Korea, Taiwan, and Hong Kong -- and Singapore, another NIC. These nations still command nearly one-half of U.S. apparel imports (measured in customs value) and are sufficiently industrialized that they should be asked to share the U.S. apparel market with those nations less developed and experiencing greater hardships than they are.

These offsetting shifts would leave U.S. apparel imports unchanged. We see no justification for asking one segment of the U.S. workforce to carry an international burden all by themselves.

Even this remedial step may not prove sufficient. In the past, the U.S. government has sought to extend the benefits of the CBI program to Mexico, our largest Latin-American apparel shipper. We can only assume that it will try to do so again, even though Mexico is not covered by the bill. Such actions would require further offsetting of import growth with cutbacks from countries no longer genuinely dependant on garment production and export.

A shift of quota as suggested above is feasible under our existing trade relationships. Our bilateral textile agreements with South Korea and Taiwan expire at the end of this year. And while our agreements with both Hong Kong and Singapore do not, they both contain provisions that allow for renegotiation of the terms of the agreements.

We would also strongly recommend that if access to the U.S. market is to be liberalized for the CBI countries, it should be granted on the condition that workers' rights be safeguarded and that labor standards be advanced in these countries.

Finally, steps should be taken to strengthen enforcement. Funding for the Customs Service should be significantly boosted, regulations concerning origin of materials and value added in the beneficiary country need to be tightened, and penalties for violation of these regulations must be made more severe.

International Leather Goods Plastics and Novelty Workers' Union

Affiliated with American Federation of Labor and Congress of Industrial Organizations
General Office: 265 West 14th Street, New York, N.Y. 10011
Telephone: ORegon 5-9240
General President: Domenic DiPaola

March 31, 1989

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

The International Leather Goods, Plastics and Novelty Workers' Union, AFL-CIO, joins the other members of the Leather Products Coalition in submitting comments on H.R. 1233, "The Caribbean Basin Economic Recovery Expansion Act of 1989." Our union is very much opposed to section 5(b) of the legislation, which would allow massive quantities of the products we make (luggage, handbags and personal leather goods) to enter the U.S. duty free from the Caribbean. We are also very concerned about the effect of this proposal on our members who make leather goods in Puerto Rico.

Our concerns are further detailed in the attached statement, which is submitted in six copies.

Sincerely,

Domenic DiPaola

Domenic DiPaola
General President

Enclosures

STATEMENT OF THE

LEATHER PRODUCTS COALITION[1]

ON

H.R. 1233, CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

I. INTRODUCTION

This statement is submitted on behalf of the following member organizations of the Leather Products Coalition:

- Amalgamated Clothing & Textile Workers Union, AFL-CIO
- Footwear Industries of America, Inc.
- International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO
- Luggage and Leather Goods Manufacturers of America, Inc.
- United Food and Commercial Workers International Union, AFL-CIO
- Work Glove Manufacturers Association

The Rubber and Plastic Footwear Manufacturers Association concurs in this statement.

The Leather Products Coalition opposes Section 5(b) of H.R. 1233, which would establish a general tariff-rate (duty-free) quota for leather-related exempt products (footwear, luggage, flat goods, handbags, leather wearing apparel and work gloves) up to a 5 percent cap of total U.S. imports of the specific category of products. The provision has the effect of revoking the duty-free exemption this Subcommittee and Congress granted these industries in the original CBI legislation.

There is simply no justification for Congress to reverse itself on this issue. The collective health of these industries is far, far worse than when Congress first granted the duty-free exemption. At the time of the original exemption, Congress said that these industries "would not survive" if faced with duty-free import competition from the Caribbean. If that was the case then, the situation is doubly so today. Thus the workers and firms in these industries do not understand why Congress is now considering legislation which, would in effect, open the floodgates on these products from the Caribbean.

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[1] Most of the members of the Leather Products Coalition, namely the Amalgamated Clothing and Textile Workers Union, the International Leather Goods, Plastics and Novelty Workers' Union, the Luggage and Leather Goods Manufacturers of America, Inc. and the Work Glove Manufacturers Association produce substantial quantities of finished textile products as well as leather-related products. The footwear industry also produces large quantities of textile footwear uppers. It should be noted that several of these organizations have concerns about the textile provisions of H.R. 1233, which have been expressed to the Subcommittee in other statements or in other fora. However, this statement seeks only to reflect the common concerns that these organizations have regarding the treatment of leather-related products in H.R. 1233. The absence of comment on the textile provisions is not meant to reflect concurrence with these provisions.

Because of the exemption that was granted by the Congress in the original legislation, we believed that Congress recognized and accepted the plight of these industries, and, furthermore, had spoken definitively on the issue of our exemption. We also sought and received the same assurances from key Administration officials: It was the position of the last two U.S. Trade Representatives that the Administration would not seek legislation to eliminate the exemption for leather products. Over the past several years, both U.S. Trade Representatives Brock and Yeutter said that they had no intention of reopening the CBI legislation. They said that their efforts would instead be directed at effective implementation of the original Act. Former Trade Representative William Brock even stated that his aide had made that point "clear to all the Caribbean governments" as he traveled throughout the region. (See Attachment 1.) Thus a policy in effect for these industries that had been well articulated in the legislation, Committee Report, and pointedly made to Caribbean leaders by U.S. trade officials is now on the verge of being reversed. This is not only inconsistent, but unnecessary and unfair as is further detailed below. Moreover, workers in the U.S. footwear and other leather-related industries cannot be asked to carry the entire burden for policy decisions that the full country should bear.

II. CONGRESS EXEMPTED FOOTWEAR AND OTHER LEATHER-RELATED PRODUCTS FROM THE ORIGINAL CBI PROGRAM DUE TO IMPORT SENSITIVITY.

When Congress passed the original CBI legislation, it exempted certain products from the duty-free trade provisions of the legislation: textiles, textile products, footwear, and other leather-related products (luggage, personal leather goods, work gloves, wearing apparel and handbags) because of these products' import sensitivity. The Ways and Means Committee Report (No. 97-958) on the CBI legislation explained the exemption for these products in the following way:

> First, while Caribbean Basin imports constitute a very small portion of U.S. market penetration at the present time, growth of some of these products has been substantial from certain Caribbean countries in the past two years and is likely to increase further in a very short period of time with the incentive of unlimited duty-free access to the U.S. market. Second, these industries, which have already been heavily impacted by increased imports, would not survive if faced with duty-free import competition from the Caribbean Basin. The relatively few jobs remaining in these industries should not be sacrificed, as they are located primarily in small towns or counties with very little manufacturing, high unemployment, and little likelihood of alternative employment opportunities in the foreseeable future.

III. NEW CBI BILL WILL EFFECTIVELY REVOKE LEATHER-RELATED PRODUCTS DUTY-FREE EXEMPTION WHILE PROVIDING CBI COUNTRIES A HUGE INCENTIVE TO INCREASE LEATHER-RELATED PRODUCT EXPORTS TO THE U.S.

In the last Congress, new CBI legislation was introduced to partially revoke the duty-free exemption for textiles/apparel, footwear and other leather-related products. Upon reflection and based on the responses received to the bill, it was revised substantially.

Unfortunately, from the standpoint of leather-related industries, this newly revised bill is much, much worse than the bill introduced in the last Congress. The practical effect of it would be to revoke the duty-free exemption for leather-related products under the CBI.

This is because the bill would allow duty-free treatment on all imports of leather-related products from the Caribbean up to a 5 percent cap of total world imports. Since imports of these leather-related products from the Caribbean are relatively small in comparison to world totals of these imports, the proposal would, in effect, be tantamount to giving duty-free treatment on almost all leather-related products imported into the U.S. from the Caribbean; it will also provide the region with extraordinary growth rates on these products as can be seen in Attachment 2 and below in Table 1.

Based on 1988 imports, the proposed legislation would allow duty free entry of leather-related articles up to the following quantities:

Table 1

Product	5 percent cap	% increase over current imports
Nonrubber Footwear:	45,200,000 pairs	2160%
Rubber Footwear:	9,325,000 pairs	866%
Leather Work Gloves:	307,383 dozen	7121%
Plastic & Rubber Work Gloves:	216,658 dozen	-73%
Flat goods:	2,131,412 units	86%
Luggage:	4,478,454 units	335%
Handbags:	6,898,557 units	7033%
Leather Apparel:	594,754 units	461% 2/

IV. THE TREATMENT OF LEATHER-RELATED PRODUCTS IN THE BILL CREATES AN ANOMALY.

Because the textile and apparel and leather-related industries are highly import sensitive, and because these industries are extremely susceptible to imports from developing countries (virtually all the products of these industries are statutorily exempt from the GSP program due to this susceptibility), they were given the same treatment with respect to their duties under the original CBI bill. The new bill would change this: Under the Committee bill, almost all leather-related products (both regular and 807) imported into the U.S. from the Caribbean would be given duty-free treatment and allowed staggering growth rates before the 5 percent of world total cap is reached.

The anomaly of the bill is that many of the products of the affected industries, e.g., textile work gloves, textile luggage, textile flat goods, textile handbags, textile footwear uppers, will be covered by the textile provisions of the bill, but the equally import-sensitive leather-related segments of these industries will be totally unprotected under the bill's provisions.

2/ Based on 1987 imports.

V. IMPORT LEVELS OF LEATHER-RELATED PRODUCTS HAVE RISEN DRAMATICALLY AND EMPLOYMENT HAS CONTINUED TO DECLINE IN THESE INDUSTRIES.

As explained in the Committee Report cited above, Congress exempted these products from the CBI legislation because of exceedingly high import levels in these industries -- levels that have risen dramatically since the time Congress voted to exempt leather-related products from the original CBI bill as can be seen below:

Table 2

Import Penetration Rates for Certain CBI Exempt Industries

	1982	1987
Nonrubber Footwear	58%	82%
Rubber Footwear	51%	63%
Luggage	34%	69%
Flat Goods	19%	46%
Handbags	81%	86%
Leather Apparel	56%	66%
Leather Work Gloves	54%	66%

Between 1982-87, 46,700 jobs were lost in the nonrubber footwear industry, 8,200 jobs were lost in rubber footwear, 2,400 jobs were lost in the luggage industry, and 11,600 jobs in the personal leather goods and handbag industries.

The U.S. workers who are being displaced are among the least educated, least skilled, least paid, and least employable of our labor pool. Many are minorities. Many are women who are holding second jobs or are heads of households. Many live in rural towns where there is no alternative employment. Many live in the inner cities where the only alternative to working in these industries is even lower-paying service sector jobs or public assistance.

VI. IMPORTS OF LEATHER-RELATED PRODUCTS AND FOOTWEAR UPPERS HAVE BEEN GROWING FROM THE CBI.

According to the Third Annual Report on the CBI issued by the USITC, U.S. imports of leather-related products not eligible for duty-free treatment under the CBI have been growing. U.S. imports of these products, i.e.,"certain leather, rubber and plastic gloves, luggage, handbags, and flat goods," increased by 47.5 percent from 1983-1987, from about $20 million to $30 million. CBI countries have also seen a phenomenal rise in the production of footwear components. In the case of footwear uppers, the most labor intensive part of the shoe, imports from the CBI rose from about $34 million in 1983 to $91 million in 1988, representing a 168 percent increase and now exceed 29 million pairs. Given the growth of imports of leather-related products and footwear uppers from the Caribbean, it is evident that duty-free treatment on footwear and leather-related products is not necessary to the expansion of these industries in the Caribbean.

VII. THE FOOTWEAR AND LEATHER-PRODUCTS INDUSTRIES OF PUERTO RICO WILL BE HURT BY SECTION 5(b) OF THE BILL.

The significant footwear and leather products industries that exist today in Puerto Rico could be jeopardized if the 5 percent cap/duty-free quota proposed in Section 5(b) of the bill is enacted into law. A number of twin plant operations have been established between Puerto Rico and the Caribbean for the production of footwear and leather products. In the case of footwear, shoe uppers are sewn in plants in the Caribbean and finished off in Puerto Rico. However, there will be a strong incentive to make the entire shoe in the Caribbean if the duty is removed on finished footwear as is proposed in Section 5(b). The situation with other leather-related products is similar. Thus this provision can only serve to jeopardize the current jobs held in these industries in Puerto Rico. We cannot imagine that the Subcommittee would intend the bill to have this effect.

VIII. THE FIVE PERCENT CAP/TARIFF-RATE QUOTA WILL ENCOURAGE FRAUD AND CIRCUMVENTION.

A major defect of H.R. 1233 is that it will encourage circumvention and fraud. There are strong incentives for foreign footwear and other leather-related products suppliers to transship through the Caribbean to avoid duties. In most cases, the duty savings combined with the huge quantities that will be permitted under the 5 percent cap will invite this kind of activity. Even given the best of intentions, Customs will not be able to adequately police country-of-origin requirements.

IX. DUTIES PLAY A VITAL ROLE IN THESE INDUSTRIES' ABILITY TO REMAIN COMPETITIVE.

The duty range for these products is 4.7 percent to 67 percent, so the duty incentive to produce these products in greater quantity in the region is substantial (see Table 3).

Of equal importance, however, is that the ability to import these articles in the duty-free quantities shown above would substantially undercut the ability of domestic producers to compete in a marketplace where they are already struggling to remain competitive against imports. The elimination of duties on such a potentially large number of products could make the difference between whether or not a domestic producer can remain competitive in a marketplace already saturated with low-cost imports.

Table 3

Duty Range for Leather-Related Products

Product	Duty
Nonrubber Footwear	8.8% (trade-weighted)
Rubber Footwear	20 - 67%
Luggage	8 - 20%
Flat Goods	4.7 - 8%
Handbags	10 - 20%
Leather Apparel	4.7%
Leather-Related Work Gloves	14%

X. CONCLUSION.

This Committee should not dismiss the concerns of our industries so lightly, which it may be about to do with this piece of legislation. Consider the fact that at a time when these industries are expanding in the Caribbean, the domestic footwear and other leather-related industries have been contracting. Under the circumstances, is it necessary or fair to require that these industries cede even more of their vastly shrunken markets?

Furthermore we do not believe that our industries should have to shoulder the burden of economic development in the Caribbean in addition to everywhere else in the world. Our industries have been called upon repeatedly to sacrifice jobs and production in this country to accommodate the needs of developing countries as they industrialize. We suspect that no other industries have given up so much of their markets to developing countries as have the leather-related industries.

There is no MFA for leather-related products to help manage trade in these industries -- industries that are as import sensitive or even more so than textiles and apparel.

Moreover, no other major industrialized countries treat their basic industries in such a cavalier fashion. As an example, while the U.S. Congress is now contemplating legislation that will lay open still further its import-battered footwear and leather products' markets, the EC is considering placing Community-wide restrictions on shoe imports from Asian countries -- an expansion of restrictions that are already in effect for some Community members.

There are some in Congress who believe that the U.S. has not done enough to help the Region. They have targeted the leather products industries believing, apparently, that these industries still have something left to give. It should be abundantly clear by now that this is not the case. Therefore, we urge this Committee to abandon this ill-advised proposal, and consider other alternatives that do not require such a tremendous sacrifice from one particular sector of the U.S. economy.

ATTACHMENT 1

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

October 7, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 11109

Dear George:

Thank you for your recent letter regarding President Reagan's Caribbean Basin Initiative. I would like to reaffirm that the Administration has no plans to reopen the Caribbean Basin Economic Recovery Act. I agree with my predecessor, Secretary Brock, that we must concentrate our efforts on effective implementation of the Act so that the region may realize the full benefits to be gained from the broad range of products which are covered by the legislation.

I hope that my response will serve to reassure you as to the Administration's intentions in this regard.

Sincerely,

Clayton Yeutter

CY:scc

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

March 26, 1985

Mr. George Q. Langstaff
President
Footwear Industries of America
1611 North Kent Street
Suite 900
Arlington, Virginia 22209

Dear Mr. Langstaff:

You noted in your letter of March 4 that leaders of several Caribbean countries have urged that the Caribbean Basin Economic Recovery Act be amended to add textiles and apparel products and footwear to the list of items eligible for duty-free treatment under the Act.

I can assure you that the Administration has no plans to reopen the legislation. That point was made clear to all of the Caribbean governments by Grant Aldonas of my staff during his recent trip through the region. Our efforts will be directed rather at the effective implementation of the current law and its incentives to investors in the broad range of product categories presently covered by the Act.

Very truly yours,

WILLIAM E. BROCK

WEB:acl

ATTACHMENT 2

U.S. IMPORTS OF LEATHER RELATED EXEMPT PRODUCTS FROM THE CARIBBEAN - 1988

Flat goods	units
Total - CBI Countries	1,147,461
World	42,628,242
5% of Total	2,131,412
% Increase	86%

Luggage	units
Total - CBI Countries	1,030,153
World	89,569,072
5% of Total	4,478,454
	335%

Handbags	units
Total - CBI Countries	96,716
World	137,971,146
5% of Total	6,898,557
% Increase	7,033%

Leather Apparel 1/	units
Total - CBI Countries	106,062
World	11,895,069
5% of Total	594,754
% Increase	461%

Work Gloves Rubber/Plastic	doz. prs.
Total - CBI Countries	803,327
World	4,333,157
5% of Total	216,658
% Increase	-73%

Work Gloves Leather	doz. prs.
Total - CBI Countries	4,257
World	6,147,658
5% of Total	307,383
% Increase	7,121%

Nonrubber Footwear	pairs
Total - CBI Countries	2,000,000
World	903,000,000
5% of Total	45,200,000
% Increase	2,160%

Rubber Footwear	pairs
Total - CBI Countries	965,000
World	186,500,000
5% of Total	9,325,000
% Increase	866%

1/ Based on 1987 trade.

BEFORE THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS

STATEMENT FOR THE RECORD SUBMITTED BY SIEGEL, MANDELL & DAVIDSON, P.C., ON BEHALF OF LIZ CLAIBORNE, INC., REGARDING H.R. 1233, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

On behalf of Liz Claiborne, Inc., 1441 Broadway, New York, New York, we are pleased to submit this statement regarding H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989. Through its divisions and subsidiaries, Liz Claiborne, Inc. imports men's and women's wearing apparel, accessories, handbags and flat goods.

STATUTORY BACKGROUND

The Caribbean Basin Economic Recovery Act (CBERA) was enacted on August 5, 1983 as Public Law 98-67 and went into effect on January 1, 1984. Also referred to as the Caribbean Basin Initiative or CBI, this landmark program represented the first attempt by the United States to establish a one-way trade preference on a strictly regional basis. The centerpiece of the CBI consists of duty-free treatment on a wide range of products from designated beneficiary countries. It was believed that market-oriented initiatives, based on duty-free access to the United States market, would lead to new investment, economic growth and export opportunities in the Caribbean region which would, in turn, reduce the social and political instability so prevalent in that area. In his address before the Organization of American States on February 24, 1982, President Reagan made it very clear that the proposed CBI program was very much in the national interest of the United States, pointing out that the Caribbean region is a "vital strategic and commercial artery for the United States" through which pass nearly half of United States trade, two-thirds of imported oil and over half of imported strategic minerals.

Unfortunately, the CBI has failed to live up to its promise. Economic stagnation remains the norm in the Caribbean region, and the resulting social and political unrest there has, if anything, increased since the CBI went into effect. While a number of reasons for this failure could be cited, one factor stands out above all others: the failure to provide CBI duty-free treatment on cotton, wool and man-made fiber textile and apparel articles, footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel. In view of the particular importance of these products to the effectiveness of the CBI, the program was, in effect, "dead on arrival".

There are several reasons why duty-free treatment on products such as wearing apparel, handbags and flat goods is central to the fulfillment of the goals of the CBI program.

First, duty-free treatment offers an incentive to a businessman only if it has a positive effect on the bottom line. If other costs of producing or procuring merchandise exceed the amount of duty saved, the incentive is lost. Many CBI beneficiary countries have high energy and other utility costs, and the costs of shipping to and from the Caribbean region are high relative to shipping costs to and from the Far East. These costs can easily exceed the 5 percent average duty assessed on merchandise imported into the United States. Given the fact that duty rates on wearing apparel are much higher, averaging approximately 20 percent, duty-free treatment on those products could provide a powerful incentive for shifting sourcing to the Caribbean region because it would give CBI wearing apparel producers a distinct competitive advantage over such manufacturers in other foreign countries.

Second, the production of men's and women's wearing apparel, accessories, handbags and flat goods is a labor-intensive process. Therefore, an increase in production of these products resulting from duty-free treatment could significantly reduce unemployment in the Caribbean region, thereby achieving one of the principal goals of the CBI.

Third, an increase in the production of wearing apparel, accessories, handbags and flat goods is a natural and feasible step in the economic development of CBI beneficiary countries because a number of CBI countries have already demonstrated an ability to produce these products. Accordingly, many of the risks normally associated with the establishment of a new and unfamiliar production facility, which often deter investment, would not be present in this case.

By proposing to expand the CBI program to cover some products hitherto excluded from duty-free treatment, H.R. 1233 represents a distinct step in the right direction. We would like to make specific comments on certain aspects of the bill which might warrant modification or clarification, after which we will suggest other actions which could be taken to assist in the accomplishment of the goals of the CBI program.

COMMENTS ON H.R. 1233

I. Textile Products

Summary

Section 5(a) of the bill would amend the CBERA by inserting after section 213 a new section 213A entitled "Special Category Articles." Subsection (a) of that new section concerns textile products and would codify, with some changes, the administratively created CBI Special Access Program set forth in subheading 9802.00.8010 of the Harmonized Tariff Schedule of the United States Annotated, or HTSUSA (formerly item 807.0010 of the Tariff Schedules of the United States Annotated, or TSUSA), under which CBI beneficiary countries have obtained higher quota levels (guaranteed access levels, or GALs) for specific textile categories pursuant to agreements negotiated with the U.S.

The textile products provision in H.R. 1233 would concern only assembly operations performed in beneficiary countries on (1) fabric that is formed and cut in the U.S. and (2) certain foreign fabric that is cut in the U.S. Bilateral agreements between the U.S. and each CBI beneficiary country would be required (existing Special Access Program agreements would be grandfathered in) and duty-free treatment would be allowed on the entire value of the assembled product (rather than only on the value of the U.S. components) up to the agreed access level for each quota category. Foreign-origin findings and trimmings could be included in the assembled product but only if their cost does not exceed 25 percent of the cost of the components of the assembled product.

Special limitations and procedures would apply in the case of products assembled from foreign fabric which was cut in the U.S. The only types of foreign fabrics that could be used are fabrics which are likely to be utilized in the manufacture of textile products in CBI beneficiary countries and which (1) are not formed in the U.S. or (2) are formed in the U.S. but are in critical shortage. The Secretary of Commerce would be responsible for preparing and publishing in the Federal Register a list of such qualifying fabrics under public notice and comment procedures (and with recommendations from an advisory committee appointed by the Secretary and consisting of only representatives of U.S. producers of textiles and textile products). Starting in 1991, the Secretary would be required to annually review and modify the list as needed. For purposes of each annual review, petitions could be filed (1) by any U.S. producer of a textile product to add any new fabric to the list and (2) by any U.S. fabric producer to delete any fabric from the existing list. The annual modifications to the list would have to be published at least 30 days prior to the start of each new calendar year and would be effective for that new year.

Comments

As a general observation, we note that this provision combines some elements contained in sections 4(c) and 7(a) of H.R. 3101 which was introduced but not passed during the last Congress. However, H.R. 1233 is much more restrictive in that (1) it covers only textile and apparel products rather than all products (including handbags and flat goods) presently excluded from CBI duty-free treatment, (2) it is limited only to assembly operations performed in a beneficiary country on fabric cut in the U.S. (as opposed to any method of production performed in a beneficiary country on any product of the U.S.) and (3) it does not provide for quota-free entry of the assembled articles.

Moreover, even though this portion of H.R. 1233 represents some improvement over the current CBI Special Access Program in that (1) some allowance is provided for the use of foreign-formed fabric and (2) the imported assembled articles would be duty-free on their entire value, we question whether H.R. 1233 would significantly contribute to the overall effectiveness of the CBI program. We note in this regard that H.R. 1233 constitutes essentially a codification of a regime which has been in effect for almost three years and which has had, at best, mixed results. We do not believe that the marginal improvements to the Special Access Program as reflected in H.R. 1233 will lead to significantly better results because (1) the slightly increased duty benefit will not overcome the built-in higher production costs resulting from the required U.S. fabric and/or cutting input and (2) the continuance of the Special Access Program quota system will limit the extent to which this provision will be utilized. Accordingly, we believe it is reasonable to predict that, at least in the eyes of CBI beneficiary countries and their producers, H.R. 1233 in this respect does not represent much of a change from what is presently available.

For the above reasons, we are of the opinion that H.R. 3101 as introduced in the last Congress represents a much better approach to the CBI problem. H.R. 3101 was admittedly a bold step forward, but it must be recognized that only bold steps, involving some significant sacrifice on the part of the U.S., will serve to ensure that the goals of the CBI program are ultimately realized. Thus, while H.R. 1233 may ensure that there will be little pain to certain domestic industry sectors, H.R. 3101 represented a far more realistic gain for the CBI program.

However, if the Subcommittee determines that it is not feasible to return to the H.R. 3101 proposals, we believe that certain aspects of the textile products provision of H.R. 1233 warrant specific comment. We note in particular the following points.

First, the textile products provision in H.R. 1233 appears to be weighted heavily in favor of domestic textile producers' interests, not only in terms of the required U.S. fabric and/or cutting input, but also with regard to the manner in which qualifying foreign fabrics are included on the annual list published by the Secretary of Commerce. We note in this regard that (1) the advisory committee to be appointed by the Secretary to assist in preparation of the list of qualifying foreign fabrics must be composed only of "representatives of United States producers of textiles and of textile products", (2) only a "United States producer of a textile product" may petition the Secretary to add a new fabric to the list and (3) only a "United States fabric producer" may petition the Secretary to remove a fabric from the list. This will undoubtedly give rise to a "fox in the chicken coop" situation because the very persons who would perform the statutory function are the same ones whose interests lie most in keeping foreign textile products out of the U.S. market. Thus, H.R. 1233 as drafted would not ensure that there will be support for the interests of beneficiary countries and their producers and the lack of such support could severely restrict the effectiveness of this provision.

In order to remedy this problem, we recommend that H.R. 1233 be modified to require that the advisory committee be composed of a specific number of individuals sufficient to provide adequate representation of the views of both (1) U.S. yarn, fabric and apparel manufacturers (to ensure that all potentially affected U.S. industry interests are represented) and (2) U.S. importers and retailers of foreign-produced apparel and fabric (to ensure representation of the parties most affected and most likely to source products in beneficiary countries). We further recommend that H.R. 1233 be modified to require the selection of members of the advisory committee from already existing textile advisory committees which reflect the very expertise that the legislation requires. We note in this regard that the Secretary of Commerce established in 1961 and 1963, respectively, the Management-Labor Textile Advisory Committee (MLTAC) and the Importers and Retailers' Textile Advisory Committee (IRTAC) specifically for the purpose of advising government officials of problems and conditions in the textile and apparel industry, including domestic market conditions. Finally, in order to ensure both continued and open representation of beneficiary countries' interests and predictability for importers, we believe that H.R. 1233 should be modified (1) to allow petition by importers and retailers of foreign-produced apparel and fabric for changes to the list of qualifying fabrics, (2) to require full public notice and comment procedures following receipt of any petition and prior to any resulting decision to modify the list and (3) to require publication of a modified list at least 120 days prior to its effective date so that an apparel importer will have sufficient advance time to make appropriate and timely contractual arrangements consistent with seasonal marketing requirements.

Second, we believe that problems may arise in regard to the requirement that fabrics formed in the U.S. must be "in critical shortage" in order to be included in the list of qualifying fabrics. It is likely that different persons would have varying opinions as to what a "critical shortage" is, depending on the specific interest or point of view which the person wishes to pursue or support. In order to ensure consistent and fair application of this important criterion, we recommend that the term be statutorily defined.

Third, we question the advisability of limiting the list of qualifying foreign fabrics to those which are "likely to be utilized in the manufacture of textile products in beneficiary countries." We fail to see what purpose this provision would serve and we believe it would be extremely difficult to administer because it is nearly impossible to predict what types of products a continually developing country is "likely" to produce at any specific time. Moreover, because the probable effect of this provision would be to limit the number of fabrics on the list, it would unnecessarily reduce the opportunities of beneficiary countries to participate in the CBI and would, therefore, defeat the overall purpose of the legislation. Accordingly, we recommend that this criterion be deleted from the bill.

II. Other Import Sensitive Products

Summary

Subsection (b) of new section 213A as set forth in H.R. 1233 would amend the CBERA by establishing a yearly "tariff-rate", or duty-free, quota for all other products (*i.e.*, other than textile and apparel articles) which are presently excluded from CBI duty-free treatment. The President would be responsible for establishing special categories of such products for purposes of this provision, and the quota year for each category would start on April 1 (but not before April 1, 1990) and end the following March 31. Articles in each category entered from beneficiary countries during the quota year would receive duty-free treatment up to the annual quota amount and articles entered during that quota year above that amount would remain dutiable.

The provision sets forth both "general" and "national" duty-free quotas for the special categories established by the President. The *general duty-free quota* (which would apply to all CBI beneficiary countries taken together) would start on April 1, 1990 and would constitute for each category a quantity equal to 5 percent of the aggregate quantity of articles in the category that is entered from all countries (including CBI beneficiary countries) during a quota year. The *national duty-free quota* would apply only to individual beneficiary countries and would come into play at the start of any quota year (but not before April 1, 1991) if, during the preceding quota year, the aggregate quantity of articles in a category equalled or exceeded the 5 percent limit established under the general duty-free quota. The national duty-free quota would be referenced to a "base year" (*i.e.*, the quota year preceding the year in which the national duty-free quota must come into play) and would allow duty-free entry of articles in a category up to a quantity that is equal to 103 percent of the larger of (1) the quantity of articles in that category that was produced in the individual beneficiary country and exported to the U.S. during the base year or (2) the quantity of articles in that category resulting from dividing the number of beneficiary countries into the aggregate quantity of articles in that category produced in all beneficiary countries and exported to the U.S. during the base year.

Thus, the general duty-free quota would continue to operate, without annual increments, in each subsequent quota year so long as the 5 percent limit is not reached. The national duty-free quota level, on the other hand, would be more open-ended in that the level for an individual beneficiary country could continue to grow from year to year so long as the yearly quantity determined under the above formula is exceeded in each subsequent quota year. By the same token, a national duty-free quota could be replaced by the general duty-free quota in the next year if, during the preceding year in which the national duty-free quota applies, the level of imports from all beneficiary countries falls below the 5 percent limit established under the general duty-free quota.

Comments

This provision [section 213A (b)], although somewhat similar to section 4(d) of H.R. 3101, differs from the H.R. 3101 provision in two important respects: (1) the duty-free quota would not apply to textiles and apparel articles and (2) there would be no guaranteed annual 3 percent cumulative increase above the initial duty-free quota level. While we would also prefer the H.R. 3101 approach in this instance, we offer the following specific comments in regard to the H.R. 1233 provision.

We believe that the effectiveness of H.R. 1233 would be significantly increased if this provision were made complementary to the textile products provision, so that all textile products other than assembled products covered by new section 213A(a) would be eligible for the duty-free quota. In addition, with regard to the annual duty-free quota levels, we suggest that H.R. 1233 be modified (1) to allow an annual automatic 3 percent cumulative increase in the general duty-free quota level so long as the 5 percent overall limit is not exceeded and (2) in the case of the national duty-free quotas, to provide that an individual beneficiary country's share shall not drop below its highest historical level. The latter modifications are essential in order to instill confidence in potential CBI investors and U.S. buyers that there will be both growth potential and no threat of drastic cutbacks due to a temporary drop in beneficiary country production during a particular year.

We also note that this provision merely vests the President with authority to establish the special categories for purposes of the duty-free quotas, without setting forth any specific mechanism for the establishment of those categories. We believe that this provision would be more effective and reliable if it were modified to set forth a specific procedure whereby any interested party could file a petition which would lead directly to the establishment of a category.

III. Conforming Amendment

Summary

Section 5(b) of H.R. 1233 would amend the present product exclusion provision (section 213(b) of the CBERA) by inserting in lieu thereof a shorter provision which describes the present CBI-excluded products in more general terms and ends with the words "except to the extent provided for under section 213A." Thus, the present more detailed descriptions of the excluded products would no longer appear in section 213(b) of the CBERA.

Comments

In view of the fact that the CBERA, as amended by H.R. 1233, would no longer refer to textile and apparel articles "which are subject to textile agreements" (the present exclusion language in CBERA section 213(b)), the amended product exclusion language could be interpreted to cover silk blend and non-cotton vegetable fiber products which hitherto have not been treated as CBI-excluded products because they were not covered by the Multi-Fiber Arrangement when the CBERA was enacted. Thus, this provision of H.R. 1233 could inadvertently expand the scope of the CBI product exclusions beyond what was originally intended, thereby dealing a severe blow to CBI producers of silk blend and non-cotton vegetable fiber products.

We also believe that the proposed amendment could give rise to interpretative problems in connection with General Note 3(a)(iv) of the HTSUSA which concerns duty-free treatment of products of insular possessions. It will be recalled that section 214(a) of the CBERA amended General Headnote 3(a) of the TSUSA (the predecessor to General Note 3(a)(iv) of the HTSUSA) to raise the maximum foreign materials content limitation to 70 percent except in the case of products provided for in section 213(b) of the CBERA (in which case the former more restrictive 50 percent limit would still apply). The proposed new wording of section 213(b) set forth in H.R. 1233, coupled with the present wording of General Note 3(a)(iv) of the HTSUSA, could be taken to mean that some of the products to which the 50 percent rule now applies would become subject to the more liberal 70 percent rule in General Note 3(a)(iv) because new section 213A would provide for CBI duty-free treatment on some presently excluded products. Moreover, even if this is the intent, some consideration should be given to how this potentially complicated result would be administered because such products would not be duty-free under the CBI on an across-the-board basis but rather only to the extent that they meet the specific duty-free requirements of proposed new section 213A of the CBERA.

Accordingly, we suggest that this provision be looked at closely to determine whether it is in accord with the intended interpretation and operation of the CBERA product exclusions and General Note 3(a)(iv) of the HTSUSA.

ADDITIONAL SUGGESTIONS TO IMPROVE THE CBI-- THE PROBLEM OF SUBSTANTIAL TRANSFORMATION

There is another area of great significance which warrants the special attention of the Subcommittee. This concerns the interpretation and application of country of origin rules under the CBI by the Customs Service and the courts. Since at least the beginning of this century, the substantial transformation rule, which forms the basis for origin determinations under the tariff laws, was applied by the Customs Service and the courts in such a way that origin would be conferred solely on the basis of whether a new and different article of commerce was created. This standard is reflected in section 213(a)(2) of the present CBI statute. However, in 1984 the Customs Service promulgated special country of origin rules, set forth at 19 CFR Section 12.130, for purposes of the Textile Import Program. These regulations, which are intended to prevent pass-through operations involving products subject to textile quotas, set forth a two-pronged origin test under which origin would be conferred only if a new and different article were created and the processing operations used to produce that article were substantial. On August 2, 1985 the Customs Service published a notice advising of its intention to apply this two-pronged test in other contexts, including for duty and country of origin marking purposes. Since that time, the courts have increasingly used this dual test, principally in connection with country of origin marking cases.

For several reasons, application of the substantial processing standard would have a potentially devastating effect on the CBI program.

Unlike the new and different article standard, the substantial processing test is by nature highly subjective and lends itself to result-oriented manipulation on the part of the Customs Service. Consequently, this test has engendered a considerable amount of uncertainty and confusion in the trade community as regards origin determinations under the tariff laws. A businessman now has no independent and assured way of predicting in advance whether a particular processing operation will be deemed by the Customs Service to be sufficiently substantial so as to confer origin. In many cases, the only solution is to seek a binding ruling from the Customs Service on a specific prospective transaction, but this is often of little benefit because numerical limitations on personnel within the Customs Service frequently result in the issuance of the decision many months after the request for the ruling was submitted, by which time the opportunity to take advantage of the CBI has been lost. Moreover, even if the ruling is issued on a timely basis, there is no guarantee that the decision will be consistent with the goals of the CBI program.

This substantial processing test also poses particular problems in the context of the CBI 35 percent value-added requirement. This arises from application of the so-called double substantial transformation rule whereby materials imported into a CBI beneficiary country become countable toward the value requirement if they are first substantially transformed into a new and different article and that article then is used in a second processing operation to produce the final product exported to the United States. If the substantial processing standard is applied at both processing stages (i.e., for each substantial transformation) the direct costs of processing operations which the producer may have to incur in order to reach a "substantial" level of processing might greatly exceed the value-added component which Congress deemed to be appropriate under the CBI. This, in turn, would necessarily add to the cost of the article, thereby reducing its competitiveness in the United

States market. Moreover, a substantial processing standard is entirely redundant (and, thus, superfluous) under the CBI because the CBI statute already addresses the issue of pass-through operations, both by means of the value-added requirement and by virtue of the simple combining/packaging/mere dilution limitations on origin contained in sections 213(a)(2)(A) and (B).

For the above reasons, it is necessary to preclude both the Customs Service and the courts from applying this substantial processing standard under the CBI either for duty or country of origin marking purposes. In order to make effective use of the CBI, the trade community needs predictable, understandable rules which would provide reasonable assurance that the products which they import will receive duty-free treatment. A reaffirmation of the applicability of the traditional substantial transformation test, _i.e._, creation of a new and different article of commerce, would accomplish this and would significantly increase confidence in the CBI which is essential if the goals of the program are to be reached.

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TESTIMONY ON H.R. 1233
"THE CARIBBEAN BASIN EXPANSION ACT OF 1989"
SUBMITTED BY STEPHEN LANDE & NELLIS CRIGLER
MANCHESTER TRADE, INC.

Manchester Trade is pleased to have the opportunity to present its views on H.R. 1233, a bill designed to improve the Caribbean Basin Economic Recovery Act. These comments are being supplied on our own behalf and do not purport to be the views of any other group or organization. They are based on our experience with U.S. trade policy towards the Caribbean and Central America since the inception of the original Caribbean Basin Initiative.

Assured and expanding access to the American market is only one factor, but a crucial one, needed to assure economic development in the Caribbean Basin region. An improved CBI would remove remaining significant obstacles and extend additional duty-free treatment to the region's exports, consistent with the overall goals of U.S. trade policy.

Congressmen Sam Gibbons, J.J. Pickle and the other cosponsors of the legislation should be applauded for their recognition that the original CBI needs improvement in order to be effective. In its present form, CBI II contains innovative proposals which go a long way to meeting the above objectives within the constraints of the American political system. The staffs of the Trade Subcommittee and the Oversight Committees of the Ways and Means Committee also deserve credit for their creativity in developing proposals which respond to the needs of CBI countries has well as to legitimate constituent concerns.

Manchester Trade would like to endorse the provisions contained H.R. 1233 and suggest some minor, but significant improvements. These suggestions are designed to be consistent with U.S. trade law and acceptable to constituent interests while providing meaningful benefits to the region. They are also designed to take into the sense of Congress in "The Omnibus Trade and Competitive Act of 1988" to the effect that CBI imports should not be adversely affected in implementation of the trade law and that the CBI should be strengthened.

We strongly support provisions to provide some form of duty-free treatment for textile and apparel products. We would suggest the following four modifications to the current proposals which would increase their utility to the CBI without presenting a threat to the U.S. industry.

1. Duty-free and quota-free treatment should be provided for textile products assembled from fabric formed in the Caribbean or formed both in the United States and the Caribbean, as well as from fabrics formed in the United States. The Caribbean Basin has only a small capacity to produce textiles for incorporation into apparel products, so limited as not to threaten American producers. Nevertheless, the positive effect of such vertical integration from peasant farmers producing fibers to final assembly is consistent with CBI goals of promoting industrial development.

2. CBI beneficiaries should be able to negotiate Guaranteed Access Levels for qualifying products free from any linkage to the negotiation of specific limits on non-807 A apparel imports.

3. Some limited form of duty-free treatment should apply to non-807A apparel. It is not reasonable to limit CBI apparel production entirely to the use of U.S. fabric. This limited duty-free treatment could take the following forms:

   A. Tariff rate quotas as provided for the other exempted products;

   B. Reduced MFN duties on such imports;

   C. Duty-free treatment for new entrants into the market (perhaps up to one percent of overall U.S. imports of a particular product) and for imports in categories subject to specific limits;

4. Removal of the discriminatory "Sense of the Congress" provision calling for USTR to take into account allocation of quotas to U.S. companies in negotiating bilateral textile agreements with CBI countries. (No other countries are subject to such criteria.) Placing such conditions on allocation of specific limits is particularly unfair since under the current CBI II proposals, no special treatment is provided for trade subject to specific limits.

5. The bill should allow duty free entry for any textile product produced from American formed fabric, allowing for prescribed limits for non-American trim, without reference to what type of processing it undergoes in CBI countries. The current GAL program is constrained by Customs definitions used to administer TSUS 807.

We are aware of the domestic textile and apparel industry's concern that increased CBI imports generated by this bill would add to the already significant import penetration in this sector. However, we have noted the evolution of trade shifting from the Far East to the Caribbean Basin and are aware of debates within the Administration as to whether, and if so how, this evolution should be encouraged as part of the normal administration of the MFA. We believe that it is best to address this question outside of the specific provisions of H.R. 1233, which largely deals with tariff relief.

We strongly support the current proposal to establish a tariff rate quota allowing for limited duty-free entry for the non-textile and apparel products excluded from CBI. Domestic producers in the United States should not be unduly concerned since the overall ceilings for duty-free entry are small, may not be reached in some cases, and are more likely to cause a diversion from third countries than from American producers.

TRADE REMEDY STATUTES

H.R. 1233 contains a proposal not to cumulate CBI imports with third country imports in unfair trade practice determinations. The concept behind this recommendation is that U.S. trade law remedies should only be imposed against CBI imports where they are causing or threatening to cause injury to U.S. producers.

We would suggest that this concept should apply to injury in escape clause cases as well. Therefore, one should include in CBI II, a provision like that in the U.S.-Canada Free Trade Agreement which provides for exempting Canada from most escape clause relief if imports from Canada comprise ten percent or less of total U.S. imports of a product.

Another escape clause provision which could be drawn from the U.S.-Canadian Free Trade Agreement concerns the duration of relief. There is a provision in the U.S.-Canada Free Trade Agreement which limits the period under which a product could lose CBI duty-free treatment under the escape clause to no more than three years where imports from Canada are cause of serious injury.

The original CBI contained special provisions for providing tariff relief on an expedited basis for perishable products from CBI beneficiaries. These provisions were superceded by provision in the Trade Law allowing the imposition of quotas on perishable products from all sources including the Caribbean Basin. We would hope that CBI II could reinstate the special procedures for perishable products from the CBI and exempt CBI imports from the newer procedure.

The Trade and Competitiveness Act of 1988 may preclude the USITC from taking into account U.S. industry profits from coproduction operations in deciding whether imports are injuring U.S. producers. Coproduction assures that both the United States and Caribbean producers profits from a successful CBI. Therefore in cases involving coproduction between the American and Caribbean producers, the USITC should be able to take into account profits from these operations.

RULES OF ORIGIN

We believe that the CBI rules of origin should be modernized in light of recent developments in the field including the experience with the U.S.-Canada Free Trade Agreement.

A. Adopt certain of the origin rules contained in the U.S.-Canadian agreement as an additional option to current CBI origin rules. The rules should be those which are most relevant and advantageous to the CBI. They include provisions which do not require substantial transformation in certain cases.

B. Allow complete duty-free treatment for CBI imports produced from American inputs without regard to whether the current CBI rules of origin requirements are met. (We realize that this modification must limit the amount of third country input able to benefit from this provision in order to prevent circumvention of U.S. duty laws.) Under the current provisions, U.S. producers importing under the CBI are often at a competitive disadvantage with GSP imports from other regions. A product can be imported under GSP without any U.S. input and still receive duty-free treatment under GSP rules. If the same product is imported with U.S. input under the CBI, but is not substantially transformed in a CBI country and does not have at least 20 percent Caribbean Basin input, duty is exempted only on the American content.

C. Require USTR to negotiate a modification in the U.S.-Canada Agreement which would allow CBI inputs to count toward origin requirements in both countries.

D. Adopt the E.C.-Lome practice which bestows, for a limited but specified period, origin on otherwise ineligible beneficiary exports in order to allow start up operations to develop sufficient local content.

STEEL We believe that the effect on indigenous CBI steel producers (steel products produced from steel melted and poured in the region) of a possible VRA renewal should be addressed in CBI II. At a minimum, CBI II should contain a sense of Congress to the effect that any bilateral steel agreement should not be unduly restrictive against such indigenous CBI producers and should take into account the importance to the United States of an economic prosperous CBI. This should be particularly borne in mind when deciding upon quota allocations for CBI countries. (Trinidad and Tobago's domestic steel industry is currently subject to relatively strict steel restraints.)

MISCELLANEOUS Manchester Trade does not feel that it has sufficient expertise to comment on other ideas under consideration for inclusion in CBI II. We believe that provisions should be included encouraging tourism in the region, allowing OPIC, AID and EXIM assistance to acceptable apparel operations and assisting the development of more efficient transportation facilities in the region.

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CBI: The Bermuda Triangle of Trade?

By Stephen Lande and Nellis Crigler

THE CARIBBEAN BASIN INITIATIVE was the first significant break with the U.S.'s postwar tradition of trade multilateralism. Its negotiation signaled a rethinking of bilateral trade arrangements, the country-to-country (or region-to-region) agreements many held responsible for creating the isolated blocs and autarkic policies that sparked the worldwide spread of the Depression in the late 1920s.

Today, bilateralism has regained much of its stature as a respected instrument of trade policy. But little is heard of the CBI. Instead, the focus is on the U.S.-Canada Free Trade Agreement, possible new bilateral arrangements with Mexico, and, if multilateral negotiations falter, arrangements with Far East countries such as Japan, Korea and Taiwan.

What has happened to the CBI? Its core was preferential duty-free treatment for more than 95% of U.S. imports from the region; has it succeeded in pushing export-led economic growth? Perhaps more important, what is the prognosis for CBI's future?

The CBI has been a modest success. Non-petroleum exports from the region have increased by 23% since the program began in 1984. New or non-traditional exports increased by a third between 1983 and 1987. Duty-free treatment under CBI has contributed to the increase in exports of ethanol, orange juice and jewelry. A recent U.S. Commerce Department survey estimates that CBI has generated $1.5 billion in private investment, creating more than 116,000 jobs. The Dominican Republic, Costa Rica and Jamaica lead the region in attracting investment.

Yet many consider CBI a failure because it did not live up to expectations. It was anticipated that economic insecurity would decline and political stability would return to the region as CBI created a dynamic center of export-led economic growth on a par with the historical experiences of Japan and Korea.

In retrospect, it is clear that these expectations were excessive. The basic requirements for such dynamic growth were simply not present. Overvalued currencies, lack of infrastructure, government disincentives to the private sector, untested labor, declining commodity prices and other factors presented a formidable counterweight to the positive benefits arising from CBI-induced growth in non-traditional exports. The excessive expectations did not arise from a naive assessment of the region's potential, but from the necessity to portray the initiative as significant in order to mobilize political support for its passage.

It also soon became apparent that CBI did not go far enough in eliminating U.S. barriers to expanded regional exports. The exemption from duty-free treatment of such key products as apparel, combined with increased non-tariff barriers, particularly the sharp reduction in sugar import quotas, offset many of CBI's advantages. Toughened U.S. anti-subsidy and dumping laws slowed the development of such non-traditional exports as cut flowers and cement. Arbitrary U.S. quotas and rigid implementation have limited potential CBI apparel exports to the point that, even with significant growth in recent years, the region's "value added" still accounts for less than 1% of the total value of U.S. textile and apparel imports. The inadequacies of some the provisions in the CBI become apparent when compared with the trade provisions in the recently implemented U.S.-Canada FTA.

Despite these factors, CBI now has the potential to evolve from a modest success into a program creating vigorous export economies. The devaluation of CBI currencies, combined with an upswing in the value of Far East currencies, has significantly improved the region's competitive position. Most beneficiary governments have replaced official disincentives to growth with programs promoting exports and investments. Infrastructure remains a problem, but has been alleviated somewhat through the creation of industrial zones and new centers of agriculture and fishery production, where adequate facilities can be supplied on a small scale. The region's labor force has proved much more adaptable than expected and in some cases approaches Far East productivity, at lower wages. Commodity prices have stabilized and in some cases are increasing. Political stability is returning as, with the notable exceptions of Nicaragua and Panama, democratic institutions become more firmly entrenched in the region.

Finally, there is now broad consensus in the region on economic development. The most vivid illustration of this was the expressions of support for export-led growth from both candidates for Prime Minister of Jamaica, Edward Seaga and Michael Manley. The two had sharply differing views eight years ago. In Washington, diplomatic representatives from CBI countries have formed an Embassy Group to forge common regional positions on trade and economic issues. This effort has helped build support for the CBI in the U.S. Congress.

The most positive sign for the immediate future is the expected passage by the 101st Congress of CBI II, a program designed to address the shortcomings of the original CBI. Expectations are that CBI II will expand the program to include previously excluded products, provide protection for CBI countries from non-tariff barriers and facilitate product eligibility by liberalizing rules of origin.

Ironically, if this effort succeeds, it will bring the trade provisions of CBI into conformity with provisions in the U.S.-Canada FTA and potential provisions in a new U.S.-Mexican arrangement. Although implemented on three different policy tracks, the result could be a de facto North American trading bloc. When combined with the expected creation of a single market in Europe by 1992, these two regional blocs may form a useful counterweight to the Far East and thereby contribute to the continuation of world prosperity, the exact opposite of what occurred in 1929. ♦

Stephen Lande, former Assistant U.S. Trade Representative, is considered the father of the current CBI and developed many of the concepts in CBI II. Nellis Crigler closely followed CBI since its inception as deputy director of the Council of the Americas. They are now, respectively, President and Vice President of Manchester Trade, Inc., a Washington, D.C.-based consulting firm.

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OF COUNSEL
RICHARD A. YARMEY

March 15, 1989

Robert Leonard, Esquire
Chief Counsel
House Ways and Means Committee
Room 1102
Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

On March 8, 1989, Ambassador C. Jesseramsing of Mauritius wrote to Chairman Sam Gibbons to express the concerns of the Government of Mauritius with respect to the sugar provisions of H.R. 1233.

We respectfully request that Ambassador Jesseramsing's letter and its enclosures be treated as a public comment on this bill. Accordingly, we are enclosing six copies.

Thank you for your consideration of the views of Mauritius on this legislation.

Sincerely,

Paul Ryberg Jr.

Paul Ryberg, Jr.
Counsel to the
Mauritius Sugar Syndicate

Enclosures

[THE ENCLOSURES TO THE AMBASSADOR'S LETTER ARE NOT BEING REPRINTED SINCE THEY WERE PREVIOUSLY PRINTED IN WAYS AND MEANS HEARING 100-64. PLEASE REFER TO THAT DOCUMENT FOR COPIES OF THE ENCLOSURES.]

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MW/XI/1

March 8th, 1989

Dear Chairman Gibbons,

I have the honour to refer to H.R. 1233, a bill to expand the Caribbean Basin Initiative ("CBI") programme. While this bill has numerous worthwhile provisions, I continue to be concerned regarding Section 7, the sugar provision.

I understand that this provision would guarantee the CBI beneficiary countries future access to the U.S. sugar market at a level no smaller than their 1989 quota allocations, which total approximately 400,000 short tons. The basic difficulty with this provision is that Mauritius and other non-CBI sugar exporting countries could witness a discriminatory decrease in the size of their quota allocations if the total quota falls below its current size in the future. Because most observers expect the sugar quota for 1990 will be set at a level substantially lower than the current quota, I view this provision as a very serious concern for Mauritius and the other developing non-CBI sugar exporting countries.

It would be inequitable and in violation of the principles of the GATT to provide such preferential access to the U.S. sugar market for the CBI beneficiary countries, while discriminating against Mauritius and other non-CBI countries. In essence, this provision would require Mauritius and other developing sugar exporting countries to foot the bill (through decreased sugar exports to the United States) for economic development in the CBI countries.

While I understand.../

While I understand that H.R. 1233 contemplates the possibility of providing compensation to countries injured by reduced access to the U.S. sugar market, I must point out that such compensation would be illusory in the case of Mauritius, which exports significant quantities of only one type of product to the United States other than sugar - i.e. textiles and apparel. While we doubt if the United States would award trade compensation to Mauritius in the form of reduced tariffs or increased quotas for our textile and apparel products, even such compensation would do little if anything to help our sugar farmers and the employees of the sugar industry whose livelihoods would be directly affected by reduced sugar exports to the United States.

Although I appreciate that the purpose of H.R. 1233 is to provide economic opportunities to a region that is admittedly important to U.S. foreign policy and strategic interests, I must respectfully point out that an equally compelling case can be made for Mauritius with regard to the Indian Ocean region. As you know, Mauritius maintains a friendly relationship with the United States, and is absolutely dedicated to the fundamental principles of democracy, free and open elections and respect for human rights. Our economic and political stability, however, is heavily dependent upon the health of our sugar industry, which is the cornerstone of our economy. Consequently, I fear that H.R. 1233 could have a very negative impact upon Mauritius and our economy.

I understand that H.R. 1233 is a modified version of H.R. 3101, which was introduced in the 100th Congress. H.R. 3101 also provided for preferential access to the U.S. sugar market for the CBI beneficiary countries. In response to that measure, on December 1, 1987, the ambassadors of 18 sugar exporting countries (including Mauritius) wrote to you expressing our concerns regarding H.R. 3101's sugar provision. Furthermore, on September 15, 1988, the Mauritius sugar industry presented testimony before your subcommittee concerning the negative effects of the sugar provision of H.R. 3101 on Mauritus and other developing sugar exporting countries that are not CBI beneficiaries. Although the sugar provision has been modified, the concerns raised in these materials remain relevant to H.R. 1233. Accordingly, I am enclosing copies.

Instead of.../

Instead of penalizing Mauritius and other developing sugar exporting countries in order to provide enhanced access to the U.S. sugar market for the CBI beneficiaries, I respectfully encourage you either to

(1) provide direct economic assistance to the CBI countries, or

(2) consider legislation to reform basic U.S. sugar policy so that the CBI countries and all other sugar exporters can benefit on non discriminatory terms from increased sugar exports to the United States.

To require other developing countries to bear the burden of CBI development, however, is unfair.

I request that this letter and its enclosures be incorporated in the record of any hearing that are held on H.R. 1233. I appreciate your consideration of my views on this important matter.

Sincerely,

(C. JESSERAMSING)
Ambassador

This material is prepared, edited, issued or circulated by Pierson Semmes and Finley, which is registered with the Department of Justice, Washington, D.C., under the Foreign Agent Registration Act as an agent of the Mauritius Chamber of Agriculture and the Mauritius Sugar Syndicate. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the contents of the material by the United States Government.

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March 30, 1989

Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102, Longworth House Office Bldg.
Washington, D.C. 20515

Dear Sir:

This letter is written to comment upon HR 1233 "The Caribbean Basin Economic Recovery Act of 1989" (CBI) now pending before the committee.

These are substantive differences in the treatment of imports under GSP as compared with CBI. The specific area of concern is the requirement for transformation.

Under GSP a product must contain at least 35% value, and be directly imported from the beneficiary country. The rulings in the "Madison Galleries" case have upheld that substantive transformation is not required for a product to gain GSP treatment.

Under CBI as proposed the product would have to be transformed in addition to meeting the 35% value added, and the direct importation requirements.

This difference in treatment places CBI beneficiary countries at a distinct disadvantage. A manufacturer who wished to qualify under CBI would have to transform raw materials. There are many manufacturing processes which could provide substantive employment and economic development in the Caribbean Basin. However, because of the restriction placed by the requirement of transformation, only the GSP treatment will apply. This being the case, there will be no substantive benefit in locating in a CBI country as compared to other GSP countries.

To encourage development in CBI countries we strongly urge the Congress re-word this act in conformance with GSP as interpreted by the Madison Galleries case to remove the requirement for transformation in the beneficiary country.

Sincerely,

Daniel Belenky

Daniel N. Belenky
Operations Manager

DB/jj

[BY PERMISSION OF THE CHAIRMAN:]

STATEMENT OF THE NATIONAL ASSOCIATION OF INDUSTRIALISTS

March 30, 1989

The Honorable Sam Gibbons
2204 Rayburn HOB
U.S. Congress
Washington, D.C. 20515

Dear Congressman Gibbons:

This letter is in response to your request for written testimony on the Caribbean Basin Economic Recovery Expansion Act of 1989.

The Asociación Nacional de Industriales (ANDI) is the nationwide trade association of industries in Colombia and is vitally interested in Colombian trade with the United States. We would, therefore, like to submit for your consideration and that of the Committee our comments on the proposed legislation.

This letter does not cover agricultural products, such as sugar, fishery products such as tuna, or petroleum, but is confined rather to the manufactured products covered by the Bill. We note that we have a particular interest in apparel and textile products which would be affected by the Bill, as well as footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel, or even watches and watch parts.

As you know, Colombia, though a Caribbean nation, is not eligible for CBI benefits. It is, in fact, a donor under the program. Nonetheless, Colombia is a developing country, and it is vitally important to the Colombian economy to develop exports to the United States in non-traditional areas. For this reason, in its economic policymaking, Colombia has emphasized the expansion of trade in manufactured goods. We recognize, as a Caribbean nation, that the economic well-being of the CBI-eligible countries is in the interest not only of the United States but also of Colombia. Economic growth in the CBI-eligible country area would be of benefit to Colombia in expanding our trade with these countries as their economies develop.

Nonetheless, we must express our concern at the discriminatory features of the Bill. We do not seek to diminish benefits for CBI-eligible countries. We do wish, however, to go on record as stating that these benefits to the CBI should not adversely affect Colombia's trade with the United States.

ANDI believes strongly that a multilateral approach, as embodied in the GSP and in the GATT, makes more sense than regional preferences. Nonetheless, we are not opposing this legislation. We have asked our Government, when this matter comes to deliberations in the GATT on the question of waiver, to insure our interests are protected.

In the area of quotas, there is no reason why Colombia should not receive the same benefits as CBI-eligible countries. Our economy is no more advanced than that of some CBI-eligible countries and, for example, in the textile and apparel trade, our exports are substantially lower than those of some CBI-eligible countries. A preference in quotas in apparel without conferring the same benefits on Colombia could seriously affect investors and traders.

We would hope that in the interest of maintaining our excellent trade relations, these points would be kept in mind. We have requested our Government to seek assurances on these points from the U.S. Administration.

Respectfully submitted on behalf of the Asociación Nacional de Industriales, ANDI.

Asociación Nacional de Industriales, ANDI
Calle 52 #47-42, Piso 9
Medellín, COLOMBIA

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

Comments on H.R. 1233 of Harold Henriquez
Minister Plenipotentiary
for Netherlands-Antilles Affairs
on Behalf of
The Netherlands-Antilles
March 31, 1989

We appreciate this opportunity to comment regarding certain aspects of H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989, that are of particular interest to the Netherlands-Antilles.

In December 1987, the Netherlands-Antilles submitted testimony regarding H.R. 3101, the predecessor to H.R. 1233. This testimony set forth our views regarding specific measures that, we believe, would have met the overall purpose of the Caribbean Basin Initiative (CBI) to foster regional trade growth while, at the same time, affording the Netherlands-Antilles reasonable opportunities to participate in the program on equal terms with other beneficiary countries. Unlike many other beneficiaries, the Netherlands-Antilles is not in a position to take advantage of CBI benefits for producers of traditional regional products like sugar or textiles. Our opportunities to take advantage of the CBI program exist in other areas. Consequently, our primary focus in commenting on H.R. 1233 concerns whether this version of CBI expansion legislation improves upon H.R. 3101, particularly with respect to matters of direct importance to the Netherlands-Antilles.

Generally, as compared with H.R. 3101, H.R. 1233 yields somewhat mixed results. For example, we consider the provision in the new bill that would extend the CBI program for an indefinite period rather than for a fixed term of years as an improvement reflecting Congress' continuing commitment to the program. The elimination of certain reporting requirements that H.R. 3101 would have imposed on CBI beneficiaries as a condition on continued duty-free treatment ameliorates requirements that might have entailed substantial burdens on the resources of certain beneficiaries.

On the other hand, H.R. 1233 is less generous than H.R. 3101 in certain significant areas. A provision which would have increased the allowance for materials of U.S. origin applied to meeting the overall 35 percent value added requirement for CBI duty-free treatment for products manufactured in East Caribbean beneficiary countries has not been carried over into H.R. 1233. Similarly, provisions in H.R. 3101 which would have exempted imports from CBI beneficiaries qualifying for Tariff Item 807 treatment from applicable quota restrictions does not appear in H.R. 1233. Neither bill has adopted proposals to increase quantitative duty-free tourist allowances for alcoholic beverages and tobacco products purchased in beneficiary countries.

Most importantly, we believe the new version of CBI legislation fails adequately to address our overriding concern that the CBI should provide a sufficiently wide range of benefits to permit reasonable opportunities for all beneficiary countries to participate fully in the program on a relatively equal footing.*/ Unfortunately, the proposed legislation does not take sufficient account of the fact the Netherlands-Antilles and other CBI beneficiaries are not in a position to take full advantage of the program's trade benefits. Consequently, we believe the following specific measures should be taken to alleviate these concerns.

H.R. 3101 contained a provision to increase from 15 to 25 percent the value of U.S. components which may be counted toward the 35 percent minimum value-added requirement in determining eligibility for duty-free treatment under the CBI for goods from "Eastern Caribbean Countries," including the Netherlands-Antilles. H.R. 1233 contains no such provision. We believe revival of this provision and its inclusion in H.R. 1233 would enhance the opportunity for the Netherlands-Antilles and other CBI beneficiaries currently unable to take full advantage of the CBI program to participate in it more fully.

The Netherlands-Antilles' most immediate and practicable opportunity for taking advantage of benefits available under the CBI program resides in petroleum and petroleum products. These products remain on the list of those excluded from eligibility for CBI duty-free treatment in the original legislation establishing the program.

Both H.R. 3101 and H.R. 1233 have sought to establish a tariff rate quota system under which limited quantities of otherwise dutiable CBI products could enter the U.S. duty-free. The two-tier system of individual and aggregate quotas originally proposed in H.R. 3101 has been changed in H.R. 1233 to an alternating national and aggregate quota system. Depending on the level of total CBI exports to the U.S. of non-textile, "special category" products, as a percentage of total U.S. imports of these products, either national or aggregate quotas will apply to these products in the following quota year. While this system may be less restrictive than the two-tier system in H.R. 3101, it remains a cumbersome arrangement whose concrete results are difficult to predict.

Like the old two-tier quota system, the new system does not take account of situations in which prior exclusion of a product from eligibility for duty-free treatment under the CBI has operated to fix the base quota from which permissible growth in duty-free CBI export levels will be calculated at an unreasonably low level. Special category articles either not exported, or exported to the U.S. in small quantities because they were excluded from CBI duty-free status, that might now qualify for a certain level of duty-free treatment may be locked into small base quotas. These base quotas would reflect prior exclusion from the CBI more than they reflect a beneficiary's actual capacity or desire to export to the U.S. Nor does the problem of establishing a reasonable base quota in situations where a beneficiary country has no history of exports to the U.S. of a particular article appear to be satisfactorily resolved.

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*/ Several members of Congress who have been active supporters of the CBI and of proposals to expand its scope have expressed their concern that the program should provide all beneficiaries with reasonable opportunities to take advantage of the CBI. Chairman Sam Gibbons of the Subcommittee on Trade of the House Ways and Means Committee stated during hearings on H.R. 3101 that "[i]n crafting CBI II, we need to consider the character and nature of the beneficiary countries and pay careful attention to their unique capabilities." Caribbean Basin Economic Recovery Expansion Act of 1987: Hearings on H.R. 3101 Before the Subcommittee on Trade of the House Committee on Ways and Means, 100th Cong. 1st and 2nd Sess. 17 (1987) (opening remarks of Sam Gibbons, Chairman, Subcommittee on Trade). See also the discussion of this issue between Reps. Guarini and Pickle, Id. at 34.

Continued imposition of these quantitative restraints on special category products limits the Netherlands-Antilles' reasonable opportunities to take advantage of benefits it might otherwise obtain from full CBI duty-free status for its petroleum and petroleum products. This is of particular concern because, as noted, these are the principal, if not the only, products through which we can expect immediately to participate fruitfully in the CBI program.

Given the intent and the purpose of the CBI to provide trade and development opportunities for all beneficiaries, I respectfully urge that the Congress make reasonable modifications to the proposed legislation that will take due account of the Netherlands-Antilles' special interests and circumstances with respect to petroleum and petroleum products. Our preference would be to accomplish this purpose by simply lifting current exclusion of these products from eligibility for unrestricted, duty-free access under the CBI program. The amount of these products made available in the U.S. market from the Netherlands-Antilles and the limited number of other potential CBI sources would not be sufficient to pose any competitive threat to U.S. domestic interests. As a consequence, the Netherlands-Antilles would also be in a position to obtain CBI trade benefits which it cannot currently obtain through other means.

Alternatively, should it be determined that some level of quantitative restraints on imports of petroleum and petroleum products from the Caribbean region must be maintained, we believe any quota system relying upon recent historical volumes of Netherlands-Antilles exports to the U.S. of these articles would be unreasonably low. In the case of the Netherlands-Antilles, we believe a base quota calculated by increasing current import amounts by approximately 30 percent would serve any U.S. interest in maintaining some level of restraints while allowing a sufficient market opportunity for the Netherlands-Antilles to derive a reasonable amount of benefits. We also suggest that any quota system rely solely on national quotas and that aggregate quotas be eliminated. Besides simplifying certain aspects of the CBI system, these modifications would permit the Netherlands-Antilles to participate in the program on equal terms with other beneficiaries who are able to take advantage of expanded benefits in sectors such as textiles or sugar.

Another issue of concern for us relates to current CBI provisions conditioning the availability of "Section 936" funds for investment projects in CBI countries, in part, upon the existence of an exchange of information agreement between the U.S. and the beneficiary country. This agreement must satisfy the requirements of Section 274(h)(6)(C) of the Internal Revenue Code of 1986, as amended by Section 222 of the CBI law. The U.S. Treasury and the Netherlands-Antilles have been through negotiations leading to the conclusion of a tax treaty which was signed in 1986. An information exchange agreement is included as part of this treaty. The balance of benefits contemplated as the result of concluding the treaty has not, however, gone into effect because it was affected by the 1986 Tax Reform Act. The U.S. Treasury could not restore the balance of benefits under the treaty as mandated by an exchange of diplomatic notes in August of 1986.

In addition, the U.S. Treasury has taken the position that an information exchange agreement meeting the requirements of Section 274(h)(6)(C) of the Internal Revenue Code mandates that the Netherlands-Antilles must eliminate its bearer share system. In taking this position, Treasury has placed an unfair burden on the Netherlands-Antilles. At the same time, failure to resolve this issue effectively precludes us from access to Section 936 funds and other benefits available under the CBI.

Our reading of Section 274(h)(6)(C) is that this law does not bar the existence of bearer shares per se. Rather, the provision is directed to prohibiting bearer shares from having a legal confidentiality effect. By interpreting the provision as mandating elimination of bearer shares, we believe the Treasury has taken an unduly rigid position which may mistake our legitimate reasons for retaining a bearer share system for opposition to meeting the disclosure obligations of an information exchange agreement.

Our reluctance to completely eliminate our bearer share system has a legitimate foundation. The Netherlands-Antilles bearer share system is 300 years old and is ingrained in the economy. Departure from the system would not only require fundamental legislative changes throughout our civil code system, it would also require basic changes in long-established ways of conducting internal business. In these circumstances, we consider insistence upon the system's elimination as both unreasonable and unnecessarily intrusive. We also believe it contradicts the basic character of the CBI as a one-way system of preferences rather than a bilateral or multilateral system of mutually negotiated concessions.

Treasury's premise appears to be that bearer shares are necessarily or by nature more inconsistent with disclosure requirements than any other system. We do not believe this premise or approach is justified. For example, the nominee system, which is permitted in the U.S., is no better in terms of assuring full disclosure than the bearer system. Both involve problems of traceability, and neither guarantees access to all the information that might be desired under a full disclosure system. We also note that, while our bearer share system has been singled out for abolition, nominee systems maintained in other CBI beneficiary countries (and, incidentally, also in the U.S.) have not been so challenged.

We are not opposed to the principle of disclosure. We have no problem, for example, with provisions requiring override of bank secrecy laws. Our objection is to a position which interprets disclosure to mean mandatory abolition of our bearer share system. Insistence upon abolition has the result of reaching very deeply into our internal affairs and requiring us to make fundamental, highly disruptive changes in long and firmly established business practices. We believe that this is unfair, particularly where the cost to us in terms of economic hardship does not result in any comparable benefit in terms of promoting elimination of secrecy.

We believe, however, that it is possible to reconcile legitimate and reasonable U.S. interests in disclosure with our valid interest in not being denied access to CBI benefits because we seek to preserve a system that we consider essential to our internal business life. Consequently, we urge that H.R. 1233 include language to the effect that, for purposes of eligibility for CBI benefits, conclusion of a tax information exchange agreement meeting the requirements of Section 274(h)(6)(C) of the Internal Revenue Code of 1986 shall not require the abolition of a bearer share system existing in a beneficiary country, so long as other applicable disclosure requirements are met.

Finally, we believe the CBI should serve as a vehicle for facilitating the access of certain beneficiary countries to foreign education and scholarship assistance available under existing U.S. programs administered through the A.I.D. and other agencies. Education is an essential element in economic development. Without people having the required skills and knowledge, we will not be able to carry forward on our plans to improve and diversify our economy.

Unfortunately, as currently administered certain foreign educational and scholarship assistance programs are not available to the Netherlands-Antilles and some other CBI beneficiary countries. This is because the criteria for obtaining the "developing country" status needed to qualify for these programs are based on mechanical formulas that do not take sufficient account of an individual country's specific development needs such as diversification, infrastructure improvement and wider income distribution. Expanded educational opportunities are an important factor in addressing these kinds of development needs.

Since Congress has already expressly allocated a significant portion of foreign educational assistance funds specifically to the Caribbean region and, as manifested in H.R. 1233, has a continuing commitment to promoting regional development, we believe it would be in keeping with these purposes to make educational assistance available to all CBI beneficiaries. This could be done by clarifying in the appropriate legislative vehicle that CBI beneficiary status automatically qualifies a country as a developing country for purposes of eligibility for educational assistance under existing U.S. programs to provide such aid.

In conclusion, we thank the Chairman and the members of the Subcommittee on Trade for this opportunity to present the concerns and views of the Netherlands-Antilles regarding H.R. 1233. We believe the specific provisions we have suggested for inclusion in this legislation will serve both the particular interest of the Netherlands-Antilles in becoming a full participant in the CBI program and the overall interest of Congress in expanding the scope of the CBI program to afford all beneficiaries the opportunity to derive meaningful economic, trade and development benefits from the program.

The designated representative to be contacted is:

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[BY PERMISSION OF THE CHAIRMAN:]

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SUITE 350
WASHINGTON, D.C. 20036

EMBASSY OF PAPUA NEW GUINEA

RECEIVED
MAR 3 - 1989
SUBCOMMITTEE ON TRADE

ACTION OFFICER:
DESIGNATION:
REFERENCE NO.:
DATE: March 29, 1989

The Hon. Sam Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gibbons,

I am writing formally to express my Government's grave concern over the proposed Section 7 of the Caribbean Basin Initiative II Bill of March 2, 1989, which specifies the establishment of a guaranteed minimum access level for sugar imports from CBI beneficiary countries by setting a minimum quota floor at the 1989 aggregate level.

The Government of Papua New Guinea considers that the adoption of the proposed Section 7 of the CBI II Bill is critical to the future development of its sugar industry.

It is critical because the sugar industry in Papua New Guinea is vitally important to the overall economy and supports the livelihood of a large percentage of the rural population in the country. The direct and indirect effects of the adoption of Secton 7 of the Bill will therefore be far reaching for Papua New Guinea and I am sure for other non CBI countries as well.

My Government is further concerned that the adoption of Section 7 of the CBI II Bill, by your Committee and ultimately by the Senate and Congress will definitely establish a preference for CBI sugar and could totally eliminate non CBI sugar from the U.S. market.

.../2

Papua New Guinea Government fully recognizes that your legislation is significant in that it recognizes the importance of the U.S. sugar market to exporting countries. It however, does not recognize the importance of the U.S. market to non-CBI quota countries. Sugar sales as you know are of major importance to the economic and social well-being of many non CBI countries, just as they are to the nations of the Caribbean Basin.

Papua New Guinea thus far believes and would like to see that the U.S. sugar quota continue to be allocated on a non-discriminatory basis, consistent with the U.S. obligation under the General Agreement for Tariffs and Trade (GATT) as well as the terms of the waiver obtained by the U.S. for program, and also U.S. imports of sugar be increased consistent with the U.S. commitment to trade liberalization and expansion.

In this regard, the Government of Papua New Guinea wishes to further renew its concerns which were communicated in December, 1987, in a letter (copy enclosed) sent to you in which the non CBI countries as a group expressed how the U.S. sugar program negatively affects their economies.

My Government is hopeful and confident that your good Committee will no doubt see its way through in arriving at an appropriate and acceptable legislation in respect of proposed Section 7 of the CBI II Bill.

Sincerely Yours,

Renagi R. Lohia, OBE
Ambassador

RRL/sa

Encl...

copy to: All Trade subcommittee members

[BY PERMISSION OF THE CHAIRMAN:]

Statement on Behalf of the Philippine Sugar Regulatory Administration on H.R. 1233 March 30, 1989

Summary

For almost eighty years the United States has maintained a unique sugar trading relationship with the Philippines. U.S. policy encouraged the growth of the Philippine sugar industry, its development as a vital source of employment and export earnings and its strong dependence on the U.S. market. This unique relationship suffered serious damage in 1974 and again in 1982 when U.S. policy decisions severely disrupted long standing and trusted trading relationships.

The bill under consideration by the Committee, particularly section 7, represents an opportunity to restore the United States in its historic role as a reliable and dependable market for Philippine sugar exports. The Philippine Sugar Regulatory Administration respectfully suggests that the ends of basic fairness as well as U.S. policy objectives would both be served by including the Philippines within the group of countries to be granted guaranteed quotas under section 7 of the bill.

The History of U.S.-Philippine Sugar Trade

As set forth in Attachment 1, the United States has had a sustained relationship with the Philippine sugar industry. By the early twentieth century this involvement had developed from a purely commercial relationship to one in which U.S. policy actively encouraged the development of the sugar industry in the Philippines. This policy, which was in furtherance of a wide range of U.S. interests as well, remained intact until 1974.

In that year the expiration of both the Laurel-Langley Trade Agreement and the U.S. Sugar Act led to devastating consequences for the Philippine sugar industry. At that time Philippine sugar production had reached 2.7 million tons, of which over 1.5 million tons was exported to the United States: almost overnight the Philippine sugar industry was taken from a secure and formally established trade relationship and thrown into the volatile and generally depressed free world sugar market of which the U.S. had then become a part.

The Philippines was forced to sell in any and all markets at the best price obtainable. The volume of Philippine sugar exports to the U.S. fluctuated widely from year to year following the fluctuations in prices, and declined to 13.5 percent of total U.S. imports for the seven years preceding 1981.

In May 1982, the U.S. reinstituted the system of country quotas for foreign sugar as an emergency measure designed to protect its domestic industry. Under the new program the U.S. import requirements were prorated to foreign suppliers on the basis of their export performance during the period between 1975 and 1981, inclusive, excluding the years of the highest and lowest entries. On this narrow and non-representative basis, the Philippines was allotted a 13.5 percent share of the U.S. import sugar market, ranking third after the Dominican Republic and Brazil with 17.6 percent and 14.5 percent shares, respectively.

This Presidential action was later written into the law. Viewed in the light of U.S. policy and the historical position of the Philippines as a sugar supplier to the U.S., it was manifestly unjust that the allocation of Philippine quota under the 1982 U.S. Sugar Program arbitrarily was made on the basis of the exports during the highly unusual 1975 to 1981 period. This decision, like the 1974 expiration of the Sugar Act, had devastating consequences for the Philippine sugar industry and its workers. Production fell by 50 percent, mills closed and the remainder operated much below capacity. Thousands of mill and farm workers became jobless. Enormous social discontent and economic suffering followed.

Modest relief from this devastation was obtained in 1986 when the Congress saw fit to provide the Philippines with an increase in percentage share - the 2.3 percent South African quota.

But now the Philippines faces an even greater threat: the prospect of a continuing decline in U.S. total imports under the "no cost to the Treasury" price-support program, and the possible elimination of Philippine exports altogether under a preferential arrangement with the countries of the Caribbean Basin.

Today total U.S. sugar imports from all sources have declined to the one million ton level. Further declines are possible if U.S. weather patterns return to normal.

Section 7 of H.R. 1233 provides guaranteed quota levels for the CBI countries, some of which already have preferential access to the European market. As a result, if U.S. quotas are reduced, the Philippine share would be reduced or eliminated even more quickly.

Enactment of this bill would be a devastating blow to the Philippine economy, already weakened by past misfortune and mismanagement, and burdened with service on a foreign debt of more than $26 billion.

THE PHILIPPINE POSITION

H.R. 1233, particularly section 7, represents a valuable opportunity to restructure the U.S.-Philippine sugar-trading relationship and to repair some of the damage done to larger U.S. policy interests by the decisions and events described above.

The U.S. today has no higher priority in East Asia than fulfilling its commitment to helping the current Philippine Government succeed. The success of the Aquino Government in bringing democracy, stability and social justice to the Philippines will be directly linked to its ability to improve the Philippine economy and improve the standard of living of the Philippine people.

To accomplish these goals, it is essential that the U.S. remain a viable and stable market for Philippine sugar exports. The health of the Philippine sugar industry is central to the health of the Philippine economy. The industry employs hundreds of thousands of workers. As we all know, poverty and joblessness are the fertile ground on which insurgency thrives.

Sugar exports are also a primary source of export earnings for the Philippines. Foreclosure or reduction in access to the U.S. market will seriously erode export earnings and make it substantially more difficult for the Philippines to meet its debt obligations.

The Philippine Sugar Regulatory Commission respectfully suggests these concerns could be addressed by including the

Philippines among the list of countries for which guaranteed quotas would be established in the proposed legislation. The Commission applauds Chairman Gibbons and the other co-sponsors of this bill for recognizing the extreme hardship and devastating impact which have resulted from recent U.S. sugar policy, but respectfully suggests that no country has been more negatively affected than the Philippines. Given the history of the U.S.-Philippine sugar trading relationship, U.S. policy interests, and the current efforts being made in the Philippines, it is essential that the Philippines be made a beneficiary of any program guaranteeing access to the U.S. sugar market.

At the same time, the Philippine Sugar Regulatory Administration supports continuing the sugar import policy under more favorable terms and conditions, assuring the equitable participation of friendly, efficient sugar-producing countries in supplying the U.S. sugar market. Such a policy would serve the treble purpose of promoting economic well-being and political stability in poor but friendly countries; giving those countries a chance to earn the hard currency they need to service their debts and import from the United States the agricultural products and capital goods they need for their own growth and development; and assuring Americans a stable, adequate supply of sugar at a reasonable price.

We thank the Committee for the opportunity to present our views.

ATTACHMENT

1796 - U.S.-Philippine sugar trade commences

1880-1890 - Philippine sugar exports to U.S. average about 125,000 tons, 58% of all exports

1909 - Payne Aldrich Tariff Act provides duty free entry of up to 300,000 tons of Philippine sugar

1913 - Underwood-Summers Act provides unlimited free trade in Philippine sugar exports to U.S.

1933 - Philippine sugar exports to U.S. reach 1.25 million tons

1934 - With passage of Philippine Independence Act duty free entry of Philippine sugar reduced to 980,000 tons

1934 - Jones Costigan Act

1937 - U.S. Sugar Act - maintains duty free quota of 980,000 tons for Philippine sugar

1930-1959 - Philippine share of U.S. import market averages 28.13 percent, Cuban share averages 69.17 percent, other suppliers average 2.7 percent

1960 - Cuban sugar excluded from U.S. market, and its share is redistributed almost exclusively to non-Philippine, third country suppliers

1962 - Sugar Act Amendments grant Philippines a modest quota increase of 70,000 tons

1965 - Sugar Act Amendments grant Philippines a basic quota of 1,050,000 tons plus 47.22 percent of deficit prorations

1971 - Sugar Act Amendments grant Philippines a basic quota of 1,126,000 tons plus 30.08 percent of deficit prorations

1960-1974 - Philippines is largest sugar exporter to U.S. market, averaging 27.61 percent of U.S. imports. U.S. is largest Philippine market accounting for 95 percent of its exports

1974 - Laurel Langley Trade Agreement expires. U.S. Sugar act expires - Philippine sugar exporters suddenly forced to sell on newly unregulated world free market

1974-1981 - Philippine share of U.S. import market declines to 13.5 percent

1982 - U.S. sugar quotas reintroduced with country allocations made on basis of 1975-1981 export performance. Philippine share established at 13.5 percent.

[BY PERMISSION OF THE CHAIRMAN:]

Prominex haïti

March 22, 1989

The Honorable
Congressman Dan Rostenkowski, III
U.S. HOUSE OF REPRESENTATIVES
1102 Longworth HOB
Washington, D.C. 20515

Dear Congressman Rostenkowski:

PROMINEX-HAITI wishes to express its support for H.R. 1233\S. 504, the Caribbean Basin Economic Recovery Expansion Act of 1989, introduced by Congressman Sam Gibbons and Senator Bob Graham on March 2, 1989.

The United States has important economic and security interest in the Caribbean and Central America. This important legislation recognizes that fact and builds on the solid foundation of CBI I to expand elements of trade policy which will lead to further economic growth and development in the region. By expanding the benefits of the original Caribbean Basin Initiative, we encourage further economic development in the region, strengthen private and public sector institutions, encourage democratization by helping to stabalize economies and, importantly, conserve and strengthen our special relationship with the nations of the Caribbean and Central America.

The passage of CBI I was a critical element in improving political relations between the U.S. and the region through promotion of economic growth. Although there has been some criticism of CBI I, it has primarily been that the bill did not go far enough. Passage and expansion of CBI II will provide an opportunity to sustain the progress which has already been made and will go a long way in helping the governments in the region overcome the problems they face in the international markets. It will also continue to attract the active involvement of U.S. companies in the region as a vital partner in economic development.

CENTRE DE PROMOTION
DES INVESTISSEMENTS
ET DES EXPORTATIONS

P.O. Box 1621
Port-au-Prince, Haiti, W.I.
Tél.: 2-8005 / 2-2414

Furthermore, at a time in Haïti when economic incentives are most needed, CBI II can be an important part of the answer.

We fully support the need for an expansion of the original CBI as outlined in the new legislation. We hope that you will be a strong and active supporter of CBI II and we look forward to working with you on this important bill.

Sincerely,

Joel Thébaud
Executive Director

JT\mt

STATEMENT OF MITCHELL J. COOPER, COUNSEL TO THE RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for manufacturers for most of the waterproof footwear and rubber-soled, fabric-upper footwear produced in this country. The names and locations of the manufacturers appear on Appendix I.

The RPFMA is opposed to Section 5(b) of HR 1233, headed "Other Import Sensitive Products", insofar as that section is applicable to the products of the domestic rubber footwear industry.

The duty rates on most waterproof footwear are at 25% or 37.5%, and on most fabric-upper footwear they range from 20% to approximately 65%. The import-related problems of this industry have been investigated, analyzed, and reported on by the Congress and by innumerable Government agencies, with the invariable result that the Government agreed that there should be no cut in duty.

In the course of both the Tokyo and Kennedy GATT Rounds, the industry successfully argued that any duty reduction in its products would endanger its survival. The facts that in 1988 imports of fabric-upper footwear took 67% of the American market and the imports of waterproof footwear 38% are ample demonstration that the duties on these products are not "protective".

Attached as Appendices II and III are tables showing the history of domestic production, exports, imports, consumption, and import penetration for fabric-upper, rubber-soled footwear and for waterproof footwear.[1] These tables demonstrate that the share of the market held by imports is greater today than it was during both the Kennedy and Tokyo Rounds, when the Government concluded that import penetration was at too high a level to warrant duty cuts.

Similarly, after careful investigation, the Government concluded that all rubber footwear products should be exempted from GSP treatment and from the Caribbean Basin Initiative as originally enacted.

The shrinkage of the domestic industry has also caused the Government to accept the view that what is left should be preserved, if possible. Thus, in 1981, the Department of Defense examined the capability of domestic waterproof manufacturers to meet mobilization requirements and concluded that "...loss of one or two of our current major suppliers would seriously jeopardize our ability to meet military requirements under surge/mobilization conditions." In 1983, the Department of Defense reexamined the industry and concluded that "...the domestic capacity would be insufficient to satisfy all of the military departments' requirements in a surge or mobilization situation. It was also found that, if we lose one or two of the major domestic suppliers, it would jeopardize our peacetime supply capability." And as recently as April, 1988, a Defense Department report discussed the problem of obtaining certain specialized waterproof boots and concluded that "...this industry segment has been severely affected by imported goods which are produced by labor pools with much lower pay scales than are prevalent in this country." This report also stated that "...foreign market penetration has made finding domestic producers very difficult."

In 1981 the Department of Commerce issued a report on domestic and import competition in the rubber footwear industry, and noted the steady decline in domestic shipments and the steady increase in imports of rubber-soled footwear with fabric uppers between 1964 and 1980.

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[1] The figures for waterproof do not go back as far as those for fabric-upper footwear because the Government did not publish figures for the waterproof segment of the industry prior to 1973.

The effect of the industry's shrinkage on employment is shown on Appendix IV. Fifteen years ago this industry employed 26,300 production workers. By 1980, the last year covered by the Commerce Department's report, employment had fallen to 19,800. The preliminary Government figure for 1988 is 10,300. The industry's employment today is lower than it was during either the Kennedy Round or the Tokyo Round. The arguments we made during those multilateral negotiations were proven valid then and are even more valid now, both with respect to the world in general and to the Caribbean Basin in particular.

Rubber footwear is a labor-intensive industry, some 90% of whose import competition currently comes from the low-wage countries of the Far East. Attached hereto as Appendix V is a print-out, by country of origin, of rubber footwear imports for each of the past five years. It is true that during 1988 less than one million pairs of rubber footwear came to this country from the Caribbean. What is more significant, however, is the change in the manufacturing situs for imports, depending on where the cost of production is the lowest. During the Kennedy Round some 70% of imports were from Japan. As Japanese wages rose, our foreign competitors shifted first to Korea and then to Taiwan. Over the past several years, the Peoples Republic of China has developed a rubber footwear industry, products of which are now entering this country in large numbers. More recently, production has been shifting to such Pacific Rim countries as Thailand and Indonesia.

Rubber footwear is a relatively unsophisticated product to manufacture. There is no reason, given the proximity to the United States, Caribbean countries could not successfully compete with countries such as Thailand at the duty rates importers from that country must pay. When we suggested this to Caribbean spokesmen in the course of the 1987 debate on amending the Caribbean Basin Initiative, we were informed that the cost of shipping from the Caribbean to the United States is greater than it is for the much longer distance from the Pacific. If indeed this is accurate, should not the Congress be examining the problem of shipping rates rather than duty rates?

Last year a total of 167 million pairs of fabric-upper and waterproof footwear were imported into the United States. If HR 1233 were to be passed in its present form, the Caribbean Basin would be entitled to export in excess of 8 million pairs of footwear to this country duty-free, in contrast to the fully dutied approximately one million pairs that entered from that region last year. This would be an open invitation to American producers to fire employees and to close plants in this country, and to shift their assets to the Caribbean. Domestic production last year totalled 95 million pairs. The enactment of HR 1233 would have the immediate effect of reducing that production by almost 10%, a decline which would be devastating to an industry which in the course of the past two decades has lost a substantial amount of its production capacity to imports.

The shrinkage in rubber footwear production is exemplified by what has happened to three prominent companies in recent years. Hyde Athletic Industries, formerly a producer of athletic footwear, closed its domestic plants and now imports all of its products. Prevue Products, formerly a domestic producer of waterproof footwear, closed its New Hampshire plant last year and is now out of business. Gold Seal Rubber Company, formerly a producer of low-priced rubber footwear, only two months ago sold its operations to a company which imports 100% of its products, with the result that Gold Seal's plant in Georgia could find no purchaser and remains closed.

A dramatic example of the import problems faced by rubber footwear is what has happened to the industry's largest survivor, Converse. At one time Converse had eight plants in Rhode Island, Massachusetts, New Hampshire, Maine, North Carolina, and Puerto Rico. At the height of its operation, Converse employed over 9,500 people. Its plant in Rhode Island and two plants in Massachusetts closed in 1977, its plant in New Hampshire closed in 1979, and its two plants in Maine closed in 1979 and 1984. In each case, the company concluded that it could not manufacture its footwear on a basis which would permit it to compete against the extraordinarily low-cost competition from Taiwan and Korea. Today Converse manufactures athletic footwear in North Carolina and Puerto Rico, with employment of approximately 2,300. This employment would be jeopardized if the industry were faced with large-scale, low-cost, duty-free competition from the Caribbean.

Those companies which have survived and which market both fabric-upper and leather-upper footwear (Converse is a leading example) find that they can manufacture their fabric footwear in their domestic plants, but must import the bulk of their leather footwear. This is entirely a result of the difference in duty levels between leather-upper and fabric-upper shoes. If the Caribbean Basin nations were to be given preferential duty treatment on rubber footwear, a company like Converse would have little choice other than to import such footwear rather than produce it domestically.

In short, if Less Developed Countries in the Far East can take a substantial share of this country's rubber footwear market with existing rates of duty, we fail to understand why countries in the Caribbean cannot do likewise. Distance from the market, labor rates, and costs of capital equipment are surely not impediments to successful competition by the Caribbean with the Far East. Perhaps the problem is shipping costs; if so, that is not a problem for which this domestic industry should pay the price. This is an industry which has already lost a substantial share of its market to imports; it can ill afford to lose more.

It should be noted that the industry has already made a significant contribution to the economies of the Caribbean countries, inasmuch as a large and growing volume of fabric footwear uppers are stitched in and imported from countries in the Caribbean Basin. Consider the following extract from a recent Dominican Republic press release:

> "Data for the first eight months of 1988 show that exports of two footwear components alone (leather and cotton shoe uppers) were valued at $50.1 million, and reached a volume roughly triple the figure of 1985. Also, the footwear industry here is beginning to "mature" and diversify into the production of complete shoes.
>
> In most cases, the companies perform the labor-intensive hand sewing of shoe uppers in the Dominican Republic to take advantage of the competitive wages (the minimum wage is US$0.41 per hour, and US$0.60 includes fringe benefits). The shoes are then "bottomed" in the nearby U.S. for distribution. The production sharing arrangement with Puerto Rico allows eligible companies to qualify for 100% U.S. federal tax exemption, 90% Puerto Rico tax exemption, and quota free access to the U.S. market.
>
> Shipments of leather uppers (TSUS 79127) in the first eight months of 1988, for example, were valued at $37.8 million. This was 27.3% higher than the same period in 1987, when total shipments of this item were valued at $49.8 million.

> Production of cotton uppers (TSUS 38652) grew at an even more dynamic rate. By the first eight months of 1988, they had already reached $12.3 million, 61.8% higher than the figure for the similar period in 1987 (total shipments that year were valued at $13.2 million)."

Two other points should be made. The bill itself does not separate rubber footwear as a distinct category. The figure of 8 million pairs is therefore the most conservative possible estimate, based on the assumption that the universe against which the 5% would be applicable would be limited to worldwide rubber footwear shipments. Finally, it need hardly be emphasized that the elimination of duties as high as those applicable to this industry would provide a much greater competitive incentive to the Caribbean to produce rubber footwear than would be the case for any other product classification covered by HR 1233.

For all of the above reasons, the RPFMA urges the continuation of footwear as a product exempt from duty-preference treatment for Caribbean Basin countries.

APPENDIX I

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION
(current as of 3/17/89)

HEADQUARTERS	PLANT LOCATIONS
Converse, Inc. North Reading, MA	North Carolina, Puerto Rico
Endicott Johnson Endicott, NY	New York, Missouri
Etonic-Tretorn Brockton, MA	Maine
Kaysam Corporation of America Paterson, NJ	New Jersey
LaCrosse Footwear, Inc. LaCrosse, WI	Wisconsin, New Hampshire
New Balance Athletic Shoe, Inc. Allston, MA	Massachusetts, Maine
Servus Rubber Co., Inc. Rock Island, IL	Illinois
Simod America Corporation West Warwick, RI	Rhode Island
Tingley Rubber Corporation S. Plainfield, NJ	New Jersey

APPENDIX 11

SHOES WITH RUBBER OR PLASTIC SOLES/FABRIC UPPERS (SIC 30210 10)
(Figures in Thousands of Pairs)

	Production	Exports	Imports	Consumption	%Imports
1988	79,500	900	158,000	236,000	67.0
1987	70,400	800	119,500	189,100	63.0
1986	57,900	1,000	99,000	155,900	66.0
1985	60,778	808	84,761	146,941	57.7
1984	61,516	1,120	107,685	171,865	62.7
1983	78,054	1,203	102,662	180,019	57.0
1982	92,896	1,367	99,032	191,398	50.9
1981	95,399	1,564	137,632	231,003	59.6
1980	97,516	1,694	120,746	216,207	55.8
1979	78,130	1,223	111,390	193,381	57.6
1978	79,278	644	172,700	253,683	68.1
1977	90,417	800	106,000	196,587	53.9
1976	115,354	700	115,400	234,471	49.2
1975	131,155	600	74,100	206,376	35.9
1974	146,500	1,010	67,352	210,838	31.9
1973	143,077	29	66,291	214,837	30.9
1972	159,399	105	58,020	217,314	26.7
1971	156,489	112	62,872	219,249	28.7
1970	144,276	129	49,726	193,873	25.6
1969	142,295	195	44,463	186,563	23.8
1968	152,257	239	49,200	201,218	24.5
1967	153,656	211	44,659	198,101	22.5
1966	157,491	167	35,060	192,384	18.2
1965	165,741	195	33,363	198,909	16.8
1964	162,151	225	29,063	190,989	15.2

Source: Compiled from official statistics of the U.S. Department of Commerce

APPENDIX III

RUBBER & PLASTIC PROTECTIVE FOOTWEAR (SIC 30210 20)
(Figures in Thousands of Pairs)

	Production	Exports	Imports	Consumption	%Imports
1988	15,300	700	9,000	24,000	38.0
1987	12,000	800	9,600	20,800	46.0
1986	14,300	542	10,700	24,000	45.0
1985	16,500	392	12,846	28,900	44.0
1984	17,734	296	16,010	32,830	48.8
1983	15,459	305	13,373	26,562	50.3
1982	13,920	386	11,103	24,611	45.1
1981	10,652	551	7,485	18,028	41.5
1980	14,473	653	7,548	21,552	35.0
1979	23,531	645	12,544	36,517	34.4
1978	28,893	514	13,444	36,130	37.2
1977	23,380	400	10,700	34,402	31.1
1976	17,261	400	9,600	26,800	35.8
1975	16,135	300	4,100	20,600	19.9

Source: Compiled from official statistics of the U.S. Department of Commerce

APPENDIX IV

PRODUCTION EMPLOYMENT
(in thousands)

RUBBER AND PLASTIC FOOTWEAR

1973	26.3
1974	25.3
1975	22.3
1976	21.6
1977	20.9
1978	21.0
1979	19.9
1980	19.8
1981	19.0
1982	16.2
1983	14.1
1984	14.0
1985	10.9
1986	9.2
1987	9.4
1988	10.3 (preliminary)

Source: Bureau of Labor Statistics, U.S. Department of Labor

Flow: Imports for consumption
Type: First unit of quantity
TSUSA commodity: Total selected commodities
(Pairs)

Partner / Time period	1984	1985	1986	1987	1988
Argentina	0	2,160	2,262	3,960	10,000
Australia	10,684	9,403	249	507	13,384
Austria	4,313	4,051	4,324	700	487
Belgium	0	0	0	0	44
Belgium and Luxembourg	120	2,069	11,824	6,376	0
Botswana	0	0	0	0	1,390
Brazil	131,232	121,858	122,789	352,472	303,296
Cameroon	0	140,574	0	0	5,382
Canada	155,930	180,034	245,270	646,287	555,377
Chile	0	1,152	720	0	0
China	14,803,913	15,798,265	24,653,400	32,835,135	63,638,693
Colombia	4,163	30,745	86,950	57,231	165,515
Czechoslovakia	57,360	211,336	2,226	180	456
Denmark	1,594	100	150	0	9
Dominican Republic	48,787	20,102	24,060	1,082,587	512,680
Ecuador	433	0	0	0	0
El Salvador	0	0	0	87,359	153,383
Fiji	0	60	0	0	0
Finland	11,849	14,871	12,566	24,915	14,580
France	238,526	282,667	213,864	165,419	149,979
Germany, West	55,984	54,340	84,072	60,674	51,619
Greece	0	0	144	0	815
Guatemala	46	0	0	0	0
Haiti	350,747	705,212	667,450	306,328	295,399
Hong Kong	4,053,215	5,049,611	5,095,736	3,538,398	5,537,777
Hungary	2,580	0	0	0	0
Iceland	0	0	0	900	0
India	3,918	3,380	200	0	1,080
Indonesia	4,752	1,440	1,588	6,120	214,194
Iran	3,096	0	0	792	0
Ireland	41	16,555	15,763	440	41
Israel	28,333	58,099	335,465	153,370	173,345
Italy	1,061,314	567,881	515,374	278,765	200,613
Ivory Coast	0	0	39,852	0	27,000
Jamaica	0	0	0	0	124
Japan	1,341,230	938,811	625,682	241,091	216,038
Kenya	4,260	59,325	4,608	44,294	325
Kiribati (Gilbert Isl)	0	0	1,212	0	0
Korea, South	39,845,613	26,615,123	25,610,227	39,053,204	44,626,457
Lebanon	0	0	889	2,829	4,856
Macao	0	0	5,656	4,230	0

Note: Compiled from official statistics of the U.S. Department of Commerce.

Flow: Imports for consumption
Type: First unit of quantity
TSUSA commodity: Total selected commodities
(Pairs)

Partner / Time period	1984	1985	1986	1987	1988
Malaysia	63,695	91,907	234,202	528,195	278,609
Malta and Gozo	0	0	0	0	8,508
Mauritius	0	0	0	0	7,500
Mexico	16,281,021	19,094,208	23,671,103	24,062,149	25,589,417
Monaco	0	0	0	0	29,140
Montserrat	0	0	0	28,672	0
Morocco	0	0	0	0	57
Mozambique	0	10,170	0	27,398	0
Neth Antilles	216	0	0	216	48
Netherlands	62,753	62,143	92,384	57,998	32,760
New Caledonia	0	45,396	0	0	0
New Zealand	92	1,077	50	48	56
Norway	384	1,224	3,698	710	1,510
Pakistan	0	460	16,490	446	72
Panama	0	2,328	2,222	79	0
Peru	0	0	0	0	640
Philippines	574,954	722,609	614,660	548,874	506,103
Pitcairn Island	0	0	12,834	0	0
Poland	0	0	1,064	0	125
Portugal	2,066	14,538	47,287	127,819	39,198
Republic of South Africa	88,929	117,712	63,528	14,355	525
Romania	1,130	300	36	48	0
Singapore	6,586	13,058	46,536	33,624	2,682
Spain	632,735	839,613	1,319,376	939,158	756,050
Sri Lanka (Ceylon)	606,030	465,238	739,961	1,116,912	1,202,774
St Christopher-Nevis	5,000	0	0	0	0
St Lucia	0	4,585	6,073	6,108	2,808
Sweden	8,168	5,714	732	1,131	786
Switzerland	1,028	79,249	165,093	181,775	105,426
Syria	0	0	0	102	0
Taiwan	41,743,160	23,854,547	23,395,485	20,695,010	16,517,331
Tanzania	0	972	0	0	0
Thailand	1,028,654	820,503	659,080	1,415,429	3,986,079
Tunisia	0	0	4,842	4,500	0
Turkey	0	0	3,271	3,355	14,604
United Kingdom	85,844	287,637	260,533	160,589	182,183
Venezuela	168,112	30,569	28,592	64,372	23,574
Yugoslavia	110,858	151,972	50,870	174,829	450,280
World	123,695,448	97,606,953	109,824,574	129,148,464	166,613,183

Note: Compiled from official statistics of the U.S. Department of Commerce.

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March 20, 1989

Robert Leonard
Chief Counsel, House Ways and
  Means Committee
Longworth House Office Building
Room 1102
Washington, D.C. 20515

Dear Mr. Leonard;

Enclosed please find six copies of a letter from Ambassador Mamba of Swaziland to Congressman Gibbons commenting on HR 1233 (CBI II).

Sincerely,

Rollinde Prager

EMBASSY OF THE KINGDOM OF SWAZILAND

Telephone (202) 362-6683
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441 Van Ness Centre
4301 Connecticut Ave., N.W.
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Ref. No.

March 20, 1989

The Honorable Sam Gibbons
U.S. House of Representatives
2204 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Gibbons;

I am sending a copy of a letter that Swaziland and fifteen other sugar exporting countries sent to you in December 1987. The letter expressed our concern that CBI legislation could impair non-CBI sugar exporters.

The new CBI bill also poses a threat to non-CBI traditional exporters. By establishing a trade preference for the CBI nations, the bill could defacto eliminate our participation in the U.S. market.

I know that you are a staunch advocate of trade liberalization and I hope you can find a way to address the interests of all sugar exporters in your legislation.

Sincerely yours,

A.V. Mamba
AMBASSADOR

[SEE WAYS AND MEANS HEARINGS 100-64, PAGES 362-364 FOR THE DECEMBER, 1987 LETTER.]

SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

STATEMENT OF THE SWEETENER USERS ASSOCIATION ON H.R. 1233, THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

The Sweetener Users Association is pleased to have the opportunity to present its views on the Caribbean Basin Economic Recovery Expansion Act of 1989, H.R. 1233. We wish to confine our remarks to Section 7, "Sugar Imports from Beneficiary Countries."

The Sweetener Users Association represents industrial users of nutritive sweeteners and the trade associations representing such companies. The Association supports legislative or administrative actions that would result in a more market-oriented domestic sweetener price, and an adequate and reliable supply of domestic and foreign sweeteners.

We applaud Chairman Gibbons, Congressman Pickle, and others on the Committee for recognizing the crippling effects of the U.S. sugar program upon our Caribbean neighbors. However, we cannot support Section 7 because it fails to address the fundamental problems of the domestic sugar program.

U.S. Sugar Program and Quota System

As a nation, we are supporting the domestic sugar market at a level (22¢ per pound for raw sugar) that exceeds full production costs, including returns to land and capital. Moreover, our sugar program has been designed and operated so as to guarantee that even the least efficient producers are encouraged to expand production.

In addition to the basic problem that the domestic sugar program does not meet a reasonable competitive standard, Congress requires the "President to use all available authorities to enable the Secretary of Agriculture to operate the sugar program at no cost to the Government." In Conference Report language, the Conferees explained that by "no cost," it is meant that the import quota on raw and refined sugar be adjusted to such a level that there are no forfeitures of domestic sugar to the Commodity Credit Corporation and, thus, "no cost" to the government.

Thus, the combination of an unjustifiably high federal guarantee price for domestic cane and beet sugar and the so-called "no cost" provision has caused sugar imports to be slashed by 75 percent since the sugar program was enacted in 1981.

The level of imports from the twelve Caribbean nations, as well as the twenty-seven other non-CBI sugar-exporting countries, would have been considerably less than the 1989 quota level of 1,123,440 metric tons, raw value, if last year's drought had not reduced the domestic beet crop by approximately 410,000 metric tons. With a return to normal weather, it can be expected that the sugar import quota for all thirty-nine nations will be virtually eliminated within the next few years.

Section 7--Cost of Compensation and Trade Problems

Section 7, if enacted, would establish a guaranteed minimum quota allocation of 371,449 metric tons, raw value, to the CBI countries for any quota year beginning after December 31, 1988. Thus, any future cuts in the overall sugar quota will be borne by non-CBI nations. Compensation authority is provided if these preferential CBI quota allocations are found to be inconsistent with U.S. international obligations under the General Agreement on Tariffs and Trade (GATT).

This provision appears to be an admission that such discriminatory treatment is a violation of the GATT and, more specifically, of the GATT waiver negotiated by the United States for the CBI program.

The members of this Committee will recall the GATT decision of February 15, 1985, concerning the Caribbean Basin Economic Recovery Act, which specifically stated that the United States government would give assurance that it did not envision "any action in pursuance of the [CBI] Act which might cause adverse effect on the sugar trade of contracting parties who are not beneficiary countries." Further, the GATT, in granting a CBI waiver under the provisions of paragraph 5 of Article XXV of the General Agreement, stated that: "The Government of the United States shall ensure that this waiver will not be used to contravene the principle of non-discriminatory allocation of sugar quotas."

The CBI sugar import section is troubling for two reasons. First, the compensation provision seems to imply prior knowledge that Section 7 does violate GATT law. Second, payment of trade compensation would violate the spirit, if not the letter, of the "no cost" provision contained in the domestic sugar program.

Since Section 7 does not change the current sugar policy, the potential "compensation" exposure could be enormous. If current sugar policy is continued, analysts expect further expansion in domestic sugar production to rapidly reduce sugar import requirements in the early 1990's. As the quota drops, the cost goes up. In the not too distant future, the CBI beneficiaries could be the only countries with quotas and the bill for compensation could be about $365 million each year. Moreover, if the sugar program is not corrected, even the need for CBI imports could be eliminated by 1995 or 1996. If the United States had to pay compensation to both the CBI and non-CBI sugar suppliers, the amount would be approximately $540 million per year, based on the 1989 quota levels. Presumably, such compensation could be paid for many years. If paid over a 10-year period, the cost might exceed $5 billion. If Section 7 is interpreted to override the "no cost" provision by creating an absolute guaranteed quota for CBI nations, then non-CBI country compensation would still be $365 million per year and the Commodity Credit Corporation would be forced to purchase 371,449 metric tons of displaced domestic sugar to allow for the CBI sugar imports at a cost of $175 million annually.

The question of compensation is very complicated. Moreover, since most of the affected countries are already duty-free under the Generalized System of Preferences (GSP), the possibilities for giving compensation in the form of trade benefits are extremely limited. And the products where there are possibilities, like textiles, are also sensitive. Therefore, political pressure could exist to compensate these countries out of the federal budget. If this were to occur, it would violate the principle of a "no cost" sugar program.

Solution

There is currently before the Congress a solution to the two dilemmas caused by Section 7. On February 22, 1989, bipartisan legislation was reintroduced by members of this Committee, Congressmen Tom Downey and Bill Gradison--H.R. 1055, the Sugar Supply Stabilization Act of 1989. This legislation would gradually reduce the current raw sugar loan rate from 18¢ to 12¢ per pound over the next four years, while setting a floor on imports that rises by approximately 500,000 short tons (or 453,597 metric tons) per year.

At today's quota level, sugar imports under quota would be raised to approximately 3 million short tons (or 2.7 million metric tons) by 1992. Thus, this legislation would return all traditional foreign suppliers, including CBI beneficiaries, to their 1983/84 quota level. This was the goal of the CBI legislation introduced last Congress -- to return the CBI beneficiary countries to the level of sugar imports before the enactment of the 1983 Caribbean Basin Economic Recovery Act. At the same time, an inevitable challenge of our GATT waiver by non-CBI sugar exporters would be avoided. Compensation would not be required for non-CBI countries since all foreign sugar suppliers would be treated equally.

Conclusion

In conclusion, Mr. Chairman, we applaud your Committee's efforts and its recognition that the domestic sugar program is causing irreparable harm to our trading partners. The Sugar Supply Stabilization Act of 1989 is a logical, compatible alternative to Section 7 of the Caribbean Basin Economic Recovery Expansion Act of 1989. The compensation issue and GATT questions can be resolved by substituting the Sugar Supply Stabilization Act for Section 7 of this legislation.

The Sugar Supply Stabilization Act would solve the fundamental problems caused by the current U.S. sugar program--it would lower the domestic support price and raise the overall import quota. This approach would be more consistent with our trade and foreign policies, and it would immediately benefit the Caribbean region as well as other foreign suppliers.

Mr. Chairman, thank you for the opportunity to present our views on this important legislation, and we look forward to working with you and your Committee as you continue deliberations on this matter of vital concern.

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March 30, 1989

Robert J. Leonard, Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Bldg.
Washington, D.C. 20515

H.R. 1233

Dear Mr. Leonard:

On behalf of Target Sportswear, Inc., 1290 Avenue of the Americas, New York, N.Y. 10104, this statement is submitted in support of an amendment to Sec. 5 of H.R. 1233 with respect to the procedures for designating fabric to be in "critical shortage". The bill as drafted should be revised to more accurately reflect the commercial realty of the textile apparel industry so that the intended benefits of the provision are not negated by an unrealistic timetable provided in the bill.

Target Sportswear is a U.S. manufacturer of men's suits and sports coats and, together with its sister companies, operates factories in the United States employing more than 1000 people. As a member of the American Apparel Manufacturers Association, Target Sportswear is committed to American textile and apparel manufacturing. Like many U.S. apparel manufacturers, Target has some of its merchandise assembled in Caribbean Basin countries in order to maintain its U.S. production and employment while competing with lower-priced imported garments made entirely in Eastern European and Far East countries. Target prefers to source its fabric piece goods in the United States whenever possible. Nevertheless, U.S. textile mills simply do not produce or cannot supply in adequate quantities all the many varieties of fabric demanded by the continuously changing tastes of the American clothing market and the American consumer. Target therefore strongly supports the acknowledgement of this reality in H.R. 1233 in its establishment of the concept of fabric in "critical shortage" as qualifying assembled garments for guaranteed market access and duty free treatment from the Caribbean Basin countries. However, the procedures for establishing and modifying this so-called "critical shortage" list do not adequately reflect the commercial realities of material procurement in the apparel industry.

Specifically, the bill contemplates the preparation of a "critical shortage" list comprised of fabrics which are either not produced in the United States or are produced but in critical shortage within six months after the date of enactment.

The list shall be reviewed annually to determine whether additions to or deletions from the list are needed. Any modification to the list by reason of an annual review shall be effective for the next calendar year. Thus under the bill as drafted, material determined to be in critical shortage can conceivably remain on the list for only one year, and then be deleted. This is a woefully insufficient period of time for apparel manufacturers to react to and incorporate the benefits made available by the bill in their commercial operations. The purchase of fabric, or "piece goods", by apparel manufacturers is often done at least one year prior to the production and shipment of the finished garment. Under the timetable proposed in the bill, the fabric deemed to be in "critical shortage" could be removed from the list before importations are made under the expanded Guaranteed Access Level ("GAL") program. Thus the benefit of the legislation could be nullified, and, in fact, operate to the detriment of manufacturers who made significant commitments based on the market opportunities afforded by the new law.

We therefore recommend that the timetable proposed by the bill be revised so as to enable the intended beneficiaries of the expanded GAL program to effectively utilize the program. The minimum amount of time for a fabric determined to be in critical shortage (or not produced) to remain on the "critical shortage" list should be two years from the publication of the determination. Sufficient time must also be afforded prior to the removal of an item in order to permit a shift in sourcing to occur without disruption to the long-term commitments made in reliance on the item being on the list. Thus any modification to remove an item from the list should not become effective until two years following the determination to remove the item.

These slight revisions would more accurately reflect the commercial practices in the apparel industry and enable the legislation to effectively operate as intended.

Respectfully submitted,

TARGET SPORTSWEAR, INC.
Of Counsel:

SANDLER, TRAVIS & ROSENBERG, P.A.

By: Beth Ring
Beth C. Ring

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March 31, 1989

Mr. Robert J. Leonard
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Building
Washington, D.C. 20515

RE: COMMENTS FOR THE RECORD ON H.R. 1233, THE "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

Dear Mr. Leonard:

In accordance with the request for comments by Chairman Sam Gibbons (D-FLA) of March 6, 1989, we would like to submit the following written testimony in opposition to Section 7 of H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989."

On behalf of the Union Industrial Argentina (UIA), the Argentine Industrial Business Association, and its member, Centro Azucarero Argentino, we would like to express the following views for your consideration. Centro Azucarero Argentino is particularly concerned about the potential negative impact of H.R. 1233 on its ability to export sugar to the United States. While we commend the efforts of Chairman Gibbons to ensure greater access by the Caribbean Basin to the U.S. sugar market, we believe that the approach currently proposed under H.R. 1233 poses significant problems for our client for the reasons stated below.

The material is circulated by TKC International, Inc., 444 North Capitol Street, N.W., Suite 711, Washington, D.C., 20001, which is registered under the Foreign Agents Registration Act with the Department of Justice, Washington, D.C. As an agent for Union Industrial Argentina (UIA), copies of this material are filed with the Department of Justice where the required statement is available for public inspection. Registration does not include approval of the content of this material by the United States Government.

POTENTIAL DAMAGE TO NON-CBI COUNTRIES

On behalf of UIA, it is our belief that there is an inherent bias in H.R. 1233 against sugar exports from non-CBI countries over the long-term. By setting a minimum quota for CBI countries at 1989 levels, any expected reductions in the overall quota allocation would be borne solely by non-CBI countries. This we find unfair to non-CBI countries.

Section 7, in our view, effectively isolates CBI countries from any quota reductions and forces non-CBI countries to assume 100% of the burden created by such reductions. The discriminatory consequences of Section 7 will greatly disadvantage a non-CBI country, like Argentina, that relies heavily on sugar exports as a valuable source of foreign exchange. It will place undue strain on the U.S.-Argentine bilateral relationship at a time when Argentina is trying its best to earn the foreign exchange necessary to service its international debt and keep its recently recovered democratic system of government in power. (See attached document which reflects the importance of the sugar industry on the Argentine economy).

VIOLATION OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

Section 7 assumes a preferential reallocation of the sugar quota to CBI countries at the expense of other quota holders like Argentina. In doing so, it has the potential to render the U.S. in violation of its GATT obligations under Article XIII, and to jeopardize the 1985 GATT waiver authority for the CBI program. An inevitable challenge of this GATT waiver would compromise the U.S. leadership role in the Uruguay Round of Multilateral talks, thereby weakening the incentives for other trading partners to cooperate.

While the bill provides for compensation to non-CBI countries that could be disadvantaged by Section 7, we believe strongly that this practice runs counter to U.S. efforts to liberalize and expand trade under the Uruguay Round of multilateral talks. Compensation should be viewed as an alternative of last resort.

The material is circulated by TKC International, Inc., 444 North Capitol Street, N.W., Suite 711, Washington, D.C., 20001, which is registered under the Foreign Agents Registration Act with the Department of Justice, Washington, D.C. As an agent for Union Industrial Argentina (UIA), copies of this material are filed with the Department of Justice where the required statement is available for public inspection. Registration does not include approval of the content of this material by the United States Government.

H.R. 1233 presupposes the need for compensation, which we believe is both counterproductive and a potentially damaging precedent for other members of the international trading community to emulate. We find such a precedent disconcerting. The absence of any sunset clause, moreover, means that any compensation by the Department of Treasury could be required until infinity.

ALTERNATIVE APPROACH REQUIRED

We fully support the efforts of the Committee to address the question of market access for CBI countries, and commend Congress for its recognition that a solution to this problem is necessary.

We prefer, however, an alternative approach that in our judgement is both fair and equitable. The Sugar Supply Stabilization Act of 1989, sponsored by Congressman Tom Downey (D-NY) and Congressman Bill Gradison (R-OH), we believe, avoids the potential budgetary and GATT problems associated with H.R. 1233, while at the same time assisting the CBI countries.

H.R. 1055 would provide for uniform increases in the sugar import quota while at the same time reducing the U.S. domestic sugar price support. It is estimated that as a result of the decreases in domestic price, accompanied by an expansion in domestic consumption, implicit in the Sugar Supply Stabilization Act of 1989, up to 500,000 tons of sugar under the quota could be imported each year for four years at "no cost" to the federal government. In this way, the CBI benefits from increased export potential with no expense to the government and no injury to non-CBI countries.

We believe that H.R. 1055 is an appropriate vehicle for addressing the concerns of CBI, as well as non-CBI, countries. Its focus on reform of U.S. sugar policy and its attention to the nondiscriminatory allocation of sugar quotas is consistent with U.S. traditions of free and fair trade. We hope that you will look favorably upon this legislation.

The material is circulated by TKC International, Inc., 444 North Captiol Street, N.W., Suite 711, Washington, D.C., 20001, which is registered under the Foreign Agents Registration Act with the Department of Justice, Washington, D.C. As an agent for Union Industrial Argentina (UIA), copies of this material are filed with the Department of Justice where the required statement is available for public inspection. Registration does not include approval of the content of this material by the United States Government.

We urge you to consider our comments carefully as you proceed to mark up of H.R. 1233. We ask that you keep in mind the potential consequences of H.R. 1233 on the Argentine economy and its ability to service its foreign debt. We recommend that the proposed legislation be structured so as not to threaten the long-standing relationship between the U.S. and Argentina.

Sincerely,
Gabriel Guerra-Mondragon
Gabriel Guerra-Mondragon
President

The material is circulated by TKC International, Inc., 444 North Capitol Street, N.W., Suite 711, Washington, D.C., 20001, which is registered under the Foreign Agents Registration Act with the Department of Justice, Washington, D.C. As an agent for Union Industrial Argentina (UIA), copies of this material are filed with the Department of Justice where the required statement is available for public inspection. Registration does not include approval of the content of this material by the United States Government.

COMMENTS BY THE CENTRO AZUCARERO ARGENTINO FOR THE RECORD

This presentation, prepared by Mr. Jorge H. Zorreguieta -Chairman of the Centro Azucarero Argentino- (Argentine Sugar Council) expresses the council's opposition to Section 7 in H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989 (CBERA). The Argentine Sugar Council represents Argentine sugar producers.

Section 7 sets a minimum quota floor for sugar imports from CBI countries at the 1989 aggregate level. The CBI share of the global sugar import quota in future years could not be set below the current level, but that share would increase proportionally if the quota increases. Therefore, should the quota be set below the 1989 level, the reduction would only apply to non CBI countries, Argentina among them.

Since the quota has been lowered in recent years, making quota reduction a historical constant, it would be safe to assume that there exists a high probability of further quota reductions, in such cases and according to H.R. 1233, Argentina among other non CBI countries, would be easily cut off from the U.S. sugar market.

Section 7 would grant preferential treatment to CBI countries, overlooking the damage that such action would cause to Argentine sugar exports to the U.S. in addition to the damage already caused by the U.S. sugar program itself.

The U.S. should respect its obligations under the General Agreement for Tariffs and Trade (GATT) and the waiver it has obtained from the CBERA program which would not be needed should the quota be distributed in a non discriminatory fashion.

1. SOCIO-ECONOMIC ASPECTS OF ARGENTINE SUGAR PRODUCTION

Sugar production greatly influences Argentina's overall production. The Argentine sugar industry, located in the northwestern region of our country (Salta, Jujuy and Tucuman) is the backbone to that area's socio-economic structure. Sugar is produced in 25 plants with 15,000 sugar cane producers and roughly 100,000 workers influencing over 400,000 people (20% of the population of the area). Sugar production alone amounts to 60% of the region's gross product.

Sugar production is a source of employment for a significant number of people in the area, its trickle down effect activily involves different sectors of these economies such as workshops, repair services, spare parts manufacturers etc. There are no employment alternatives for the area's labor force.

Due to fact that the geographical location where sugar is produced is an important economic/urban center, sugar production becomes a strategic industry for its social implications.

The installed industrial capacity destined to produce sugar cane amounts to approximately US$ 1,500. The agricultural investment and work infrastructure used for watering and other related services, directly or indirectly related to this activity should also be taken into account.

2. IMPACT OF INTERNATIONAL PRICES

Argentina's production ranged from 1.5 to 1.6 million tons, it's world wide exports amounted to 500/600,000 tons.

Basically, local consumption and a legal reserve amount to 1,000,000 tons of sugar. In 1984 national sugar production amounted to 1.5 million tons and the mandatory exporting quota was fixed at 500,000 tons.

In 1985, as a result of critical international market conditions, the Argentine Government decided to lower annual production from 1.5 million to 1.1. million tons; the export share was lowered from 5000,000 to 100,000. Production decreased 28% and exports decreased 80%.

In fact, the output was adjusted to 1 million tons for the local consumption plus 100,000 tons for exports, representing the export share to the United States at the time the decision was made.

The Northwestern Argentine Provinces underwent a severe economic crisis; 5.5 million tons of sugar cane remained uncut, and the unemployment rate in the area reached critical levels. The provinces also experienced a complex social upheaval; Tucuman was the province that suffered most the effects of terrorism and guerrilla during the period 1973/77.

The Government's decision was taken within the framework of a return to democracy, together with the enforcement of a harsh economic stabilization program, the objective of which was to reduce the devastating inflation at the time while complying with the Government's obligations toward its foreign debt. Annual debt payment is about 5.000 million dollars, representing approximately 7% of the Gross National Product. At the same time a significant drop in international prices for primary products took place. Primary products constitute Argentina's principal source of foreign currency. Taking all these facts into account, it is impossible for the Argentine Government to grant any type of subsidy which could solve the problem.

For 1986 production was set at 1.050.000 tons; again the export share was set at 100.000 tons. In 1987 production was set at 972,000 with a 50,000 tons export share.

Production in 1988 was set at 1,050,000 tons with a 70,000 tons export quota; for 1989 production was set at 980,000 tons with a 72,000 tons export share.

Argentine sugar exports to the U.S. have seriously suffered due to import quotas imposed by the U.S. sugar program.

3. EXPORTS TO THE UNITED STATES

Sugar exports to the United States are of great importance to the economy of a very important region in Argentina.

As a result of the U.S. sugar policy, U.S. sugar imports decreased from an average of 5 million short tons -raw value- for the years 1977/81, to 1 million short tons -raw value- for 1987.

Argentina's share in the American market is 4,3% , its imports decreased from an average of 280,000 tons, from 1977 to 1981 to successively lower values, as low as 39,000 short tons raw value for 1987.

U.S. SUGAR IMPORTS
Short tons - Raw Value

YEAR	1977	1978	1979	1980
ARGENTINA	266,968	271,019	234,820	197,172
TOTAL	6,138,048	4,082,900	5,026,746	4,494,688

YEAR	1981	AVERAGE 1977/1981
ARGENTINA	443.950	282.786
TOTAL	5,025,283	5,075,087

SINCE MAY 1982 THE QUOTA SYSTEM WAS IMPOSED

YEAR	1982/83	1983/84	1984/85	1985/86
PERIOD	10-1-82 9-30-83	10-1-83 9-30-84	10-1-84 11-30-85	12-1-85 12-31-86
ARGENTINA	120,00	130,806	109,220	73,788
TOTAL	2,800,000	3,042,000	2,552,000	1,848,054

YEAR	1987	1988	1989
PERIOD	1-1-87 12-31-87	1-1-88 12-31-88	1-1-89 12-31-89
ARGENTINA	39,130	43,175	49,914
TOTAL	1,001,430	1,054,676	1,238,380

SOURCE: USDA

It should be fairly easy to comprehend the negative effect that lower U.S. quotas had on our country's economy. Based on USDA's source, Argentina's sugar exports to the U.S amounted to 210 million dollars in 1981, they decreased to 41 million dollars in 1983 and 18 million dollars is the estimate for 1989.

4. GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT).

The responsibilities assumed by the U.S. as a GATT member, establish clear limitation on the reallocation of sugar import quotas.

Article XIII of the agreement prohibits discriminatory application of import quotas with respect to any product.

Article XIII, section 2 establishes that: the country which is restricting its imports must aim at a distribution of the trade in each product, approaching as closely as possible the shares which the various contracting parties (GATT signatories) might be expected to obtain in the absence of such restrictions. That is to say that any means chosen to modify the proportion established and accepted by the supplying countries within the quotas system set for sugar imports by the U.S., would clearly go against Article XIII.

Section 7 in H.R. 1233, sets a substantial modification to the proportions in which the quota is distributed in favor of some countries, and considering the present volume of imports within the quota system of the United States, it enormously reduces, probably to zero, exports from non CBI quota countries.

Moreover, the waiver guaranteed by GATT Contracting Parties to the U.S. by decision of February 15, 1985 allows for the application of CBI within the terms of the General Agreement. is clear when considering that the CBRA will not harm the interest of the other contacting parties and takes into consideration the assurances that the Government of the U.S. does not enviage any action, in contradictory to of the Act, which might cause adverse effect on the sugar trade of contracting parties who are not beneficiary countries.

According to section 4(i) of the Decision, the Government of the United States will assure that this waiver will not be used to contradict the principle of the non-discriminatory allocation of sugar quotas.

It is then clear that, as established in sections 4(ii) and 4(iii) of the Decision, any distribution of the sugar import quotas modifying present proportions, must be consulted by the U.S. Government with any contracting party -in this case the Argentine Republic- which is considered to be adversely affected by any such action.
There is no doubt that the Congress of the U.S. will consider this issue in light of the economic, social and political implications affecting Argentina and that it shall also take into consideration the obligations legally undertaken by the U.S. under GATT.

Finally, the United States has always defended liberalisation and expansion of world-wide trade. The U.S. proposal presented at the Uruguay Round clearly demonstrate this fact. Therefore, it would not be consistent with such a proposal if the U.S. should distribute its sugar quota in a discriminatory way; such behavior would tarnish the image this country wants to present in liberalizing agricultural trade.

UFCW

March 31, 1989

The Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade
Committee on Ways and Means
U. S. House of Representatives
1111 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the 1.3 million members of the United Food and Commercial Workers International Union, I appreciate the opportunity to comment on H. R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989." The UFCW has some 700 local unions throughout the United States and Canada with collective bargaining agreements with tens of thousands of employers throughout the food, leather, fur, shoe manufacturing, food processing, meat packing and retail sales industries.

It is quite apparent that these industries have been severely diminished in the United States. The footwear industry alone currently operates with 82 percent foreign penetration. In 1988, 16 additional non-rubber footwear factories were closed. Unemployment in the leather and leather products industry, which includes non-rubber footwear, averaged 11.6 percent compared with a 5.5 percent national annual average.

In the original CBI legislation, leather-related products were exempt from duty-free treatment. Congress clearly recognized their import sensitivity. In fact, the full committee report on CBI legislation stated that these industries would not survive if faced with duty-free import competition from the Caribbean Basin.

In the proposed legislation, H. R. 1233, Congress would essentially revoke leather-related products' duty-free exemptions thereby further threatening the livelihood of American shoe and leather workers. At the same time, Congress would provide CBI countries with an enormous incentive to increase leather-related product exports to the United States.

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Imports of leather-related products from the Caribbean have grown substantially over the past several years. From 1983 to 1988, the value of footwear parts alone increased by 168 percent to $91 million. Imports of other exempt leather-related products grew by 47.5 percent or by $30 million. Employment in these industries declined during this same period. Between 1982 and 1987, 46,700 jobs were lost in the non-rubber footwear industry, 8,200 in the rubber footwear, 2,400 jobs in the luggage industry, and 11,600 jobs in the personal leather good and handbag industries.

As representatives of organized shoe and leather products workers, we cannot stand by and watch our industries be devastated further by increased foreign penetration. The full Committee clearly recognized this problem last Congress. We cannot understand why this view has suddenly changed.

We strongly urge you and Members of your Subcommittee to maintain the full exemption for both the footwear and leather products industries. We appreciate your willingness to submit this letter, along with the statement by the Leather Products Coalition, as our formal statement for the record.

Sincerely,

William H. Wynn

International President

Enclosures

USA
ITA

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March 31, 1989

COMMENTS IN SUPPORT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989 (H.R. 1233)

These comments are submitted by the United States Association of Importers of Textiles and Apparel ("USA-ITA") with regard to H.R. 1233, "the Caribbean Basin Economic Recovery Expansion Act of 1989."

USA-ITA is a national organization representing the interests of textile and apparel importers. Its members include leading importers, manufacturer-importers, and retailers involved in the import, manufacture, and sale of textile and apparel products from Caribbean Basin, as well as non-Caribbean Basin, sources.

We believe liberalized treatment of textile and apparel imports from Caribbean Basin countries is both necessary and appropriate and we applaud the Subcommittee's initiative.

However, the Bill in its present form provides too little improvement over the current treatment of textile products. It also includes a provision to interpose the U.S. Government in the decision-making process of Caribbean Basin countries in a way likely to create frictions with those countries.

In addition, we are greatly concerned that the legislation will be exploited by the domestic textile and apparel industry as a vehicle for global textile quota legislation in the guise of providing more liberal treatment for the Caribbean. It is incomprehensible that the domestic industry opposes the textile provisions of the Bill in its present form, when it is the principal beneficiary of those provisions.

Even before any damaging amendments are proposed, USA-ITA wants to make absolutely clear that we are unalterably opposed to any legislation which would further restrain imports from non-Caribbean suppliers. The adoption of any such provision would violate U.S. international obligations, make it impossible to obtain a new or extended GATT waiver, and most importantly, sabotage the positive approach of this CBI expansion legislation.

While we are aware of the political constraints on the Committee, the USA-ITA position is that the Bill should be significantly strengthened to provide true liberalization for textile products from the Caribbean and that it not be undermined by provisions intended to provide unnecessary additional protection for the U.S. textile industry.

The Need for More Liberal Treatment of Caribbean Textiles

Under the original Caribbean Basin Economic Recovery Act ("C.B.E.R.A.") the potential for investment and trade has not been fully realized largely because certain products, such as textiles and apparel, were excluded from duty-free treatment under the C.B.E.R.A. Furthermore, the application and threat of quotas on textiles and apparel restricted trade and development. Production of these products fit well within the framework of development for CBI beneficiary countries and represent a significant area for growth and development. The enactment of provisions liberalizing the treatment of textile and apparel imports from the Caribbean Basin would provide real benefits to CBI beneficiary countries and to the American consumer at no cost to the domestic economy. This includes the domestic apparel industry and other unions which would be the major beneficiaries.

USA-ITA believes that the provision of Section 5 of the Bill providing complete duty-free treatment only for products assembled of U.S.-formed fabric and cut in the United States under a Guaranteed Access Level ("GAL") quota is insufficient to have a significant impact on trade. Most of the value of these products already is duty free under current law. Under the 807 program only the value added through assembly (plus certain transportation costs) is subject to duties, and industry experts calculate the value added through assembly in the Caribbean amounts on average to 25 percent of the total value of finished garments. Section 5 would provide an additional benefit only for this 25 percent of the value of the garments. Thus, in the case of cotton trousers, which are subject to duty at 17.7 percent, the actual duty reduction would be only 4.4 percent.

To maximize the region's development potential, textile and apparel imports from the Caribbean should be duty and quota free. At a minimum, textile and apparel products manufactured, assembled, or otherwise produced in a Caribbean Basin country in whole of U.S. materials, U.S. components, or other U.S. goods should be both duty free and quota free, as was originally provided under Section 7 of H.R. 3101 last year. In addition, we believe that products produced wholly of Caribbean materials or wholly of U.S. and Caribbean materials should receive this same treatment. Such a provision should also allow up to 25 percent foreign value for trim, as is currently allowed under the Special Access Program.

Duty-free treatment and exemption from quotas for all apparel products produced of U.S. and Caribbean materials would be in keeping with the underlying philosophy of Caribbean Basin development upon which the CBI and C.B.E.R.A. were originally premised. Currently, under the Special Access Program, Caribbean Basin producers cannot go beyond the most basic value-added operation of assembly under Section 807 for their products to be eligible for favorable treatment under Guaranteed Access Levels (GAL). Duty-free treatment and quota-free treatment for products manufactured of U.S. and Caribbean materials would provide local manufacturers in the Caribbean Basin with the opportunity to go beyond assembly by doing their own cutting. It would also allow Caribbean Basin businesses the opportunity to produce their own fabric from U.S. yarn and to finish U.S. greige cloth without the penalties of duties and quota. In the short term, assembly operations are likely to continue to predominate in the Caribbean Basin. However, as Caribbean Basin industries mature and increase in sophistication and skill, the expanded opportunities created under a more liberal system would become increasingly practical and attractive. This would benefit not only the Caribbean, but also the U.S. textile industry which would be able to sell yarn and fabric in the region, as well as the U.S. apparel manufacturers operating in the region.

Fabric in Short Supply

Section 5 of the Bill adds new Section 213A(a)(2)(A)ii, providing duty-free treatment for apparel assembled of fabrics of foreign manufacture either not found in the United States or in critical shortage in the United States. A short supply provision of this sort is potentially of significant benefit to the Caribbean Basin and to U.S. manufacturers which need these fabrics to compete with third-country manufacturers.

We believe a provision for short supply of fabric should be in the bill, and that products assembed or manufactured in the region of third country fabrics in short supply should be accorded duty-free and quota-free treatment as would be accorded products assembled or manufactured of U.S. and/or Caribbean materials or components.

We are concerned, however, that in practice the mechanism for determining whether a foreign fabric is in short supply under the Bill's short-supply provision will rarely, if ever, result in foreign fabric being deemed not available or in critical shortage in the United States. Under the Bill, the determination of whether a foreign fabric is in short supply is to be made by the Secretary of Commerce, after consultation with an advisory committee to be appointed from among representatives of U.S. producers of textiles and of textile products. Given the historic predisposition of the Commerce Department against imports in the textile and apparel field and the composition of the advisory committee, this provision is likely to be only of no practical benefit.

We therefore recommend that the determination of whether a foreign fabric is in short supply be made by the U.S. International Trade Commission through a proceeding allowing public comment and without the appointment of a special advisory committee. Such a system would provide the most objective determination of short supply without undue influence being exercised by any one group. However, should an advisory committee be retained in the Bill, the Bill should be amended so that the membership includes equal numbers of fabric producers, apparel and other finished textile product producers, importers, retailers, and consumers.

"Sense of the Congress"

We have strong concerns about the inclusion in the Bill of a "sense of the Congress" provision (new Section 213(A)(7)) that USTR involve itself in quota administration in exporting countries, particularly in the allocation of quotas between U.S. and foreign firms. No one can object to greater fairness, transparency, and stability in administration of bilateral agreements. In fact, importers and retailers have objected to problems relating to fairness, transparency, and stability in the administration of the U.S. Textile Program for many years. However, we are concerned that even as a "sense of the Congress" provision, a Congressional directive that the U.S. Trade Representative interject itself into the decision making process of Caribbean Basin countries would be more harmful than beneficial. Such a provision needlessly provokes the understandable sensitivities of the countries of the region regarding their sovereignty and U.S. interference in their internal affairs. Although instances of unfair quota distribution may exist, we are unaware of a systematic problem warranting a Congressional directive focused exclusively on the countries of the region. Indeed, it is our understanding that at least in some instances allegations of unfairness have arisen when new U.S. companies investing on the basis of GAL quota sought non-GAL quota at the expense of non-U.S. companies previously producing in the country. This is a problem of the existing dual quota system and not of discrimination by the exporting countries. The "sense of the Congress" provision would therefore generate resentment and hostility from the countries and people the legislation is intended to benefit.

In addition, USA-ITA is extremely concerned that such a provision will be exploited by favored U.S. companies to the detriment of other U.S. companies. U.S. companies with more political clout in the Textile Program will undoubtedly seek to control quotas through their Caribbean operations at the expense of other U.S. companies. We believe the "sense of the Congress" provision will add to the pressures on U.S. Textile Program officials already burdened by undue political pressures from the textile industry.

For these reasons we strongly recommend that the "sense of the Congress" provision be deleted from the Bill.

Financial Support for U.S. Investment in Caribbean

A major goal of the CBI has been to attract U.S. investment into the region. In the area of apparel and other finished textile policies, the principal inducement for U.S. investment is the Special Access program. The effectiveness of the Program is limited, however, by the lack of financial support the U.S. Government provides to those U.S. apparel firms seeking to invest in CBI countries. The provision of financial support through existing U.S. programs would be particularly beneficial for the poorer and less stable countries of the region which are most in need of U.S. investment. We recommend that the legislation include authorization for such support for the U.S. Export Import Bank's loan and guarantee programs; the Overseas Private Investment Corporation's insurance, loan, and loan guarantee programs; the Trade and Development Program's financing facility for feasibility studies; as well as for the Agency for International Development programs for improving the trade and investment climate in the CBI countries.

A Quota Rollback Amendment

Finally, we are extremely concerned about public statements by ATMI that they oppose the legislation unless the legislation includes a provision offsetting any growth in the Caribbean through quota rollbacks for other suppliers, and indications that such an amendment will be introduced during mark-up. We are unalterably opposed to any such provision which would in effect be a backdoor try for global textile quota legislation. Such a provision would violate U.S international obligations, harm other U.S. economic interests, and thwart U.S. efforts in the Uruguay Round to improve market access overseas for U.S. agriculture, high-technology products and services. It would definitely require a new GATT waiver which certainly would not be forthcoming.

Despite the domestic textile and apparel industry's protestations, such a provision is not necessary for their well being. As a result of the tightened system of quotas, more favorable exchange rates, and wage inflation in a number of countries, during 1988, U.S. imports of apparel declined by 3.3 percent by volume, while on a value basis, U.S. exports of apparel increased by 37.9 percent, and the textile and apparel trade deficit declined by 2.7 percent. Also, all significant non-Caribbean suppliers other than Europe and Canada are already subject to quotas on virtually all their textile and apparel products, with the largest suppliers, Japan, China, Hong Kong, Taiwan, and Korea, limited to growth of 1.5 percent as a group. The combination of existing quota protection and favorable economic trends ensures that the domestic industry will not be harmed by CBI legislation. In fact, the present legislation actually helps the U.S. textile industry as its key textile provision gives a further preference to domestic fabric used in the production of apparel in the Caribbean.

As the Subcommittee is aware, U.S. textile and apparel imports are governed by the MFA, most recently extended by the 1986 Protocol of Extension, and 39 bilateral textile agreements. The MFA, the Protocol of Extension, and these bilateral agreements all prohibit rollbacks. An offset provision decreasing imports from other suppliers unquestionably would violate these agreements as well as the MFA's equity provision.

This would put billions of dollars of U.S. exports at risk of retailiation in response to resulting trade losses. The possibility of retaliation is not far fetched. In 1983, China retaliated against unilateral textile restraints imposed by the United States by banning imports on a range of U.S. products, including wheat, resulting in $700 million in lost U.S. exports. A statutory rollback could well evoke the same response from China and other affected countries. The likely targets for retaliation are our most competitive industries, including agriculture, aircraft, chemicals, wood products, telecommunications, and computer processing.

Enactment of a rollback provision also would jeopardize U.S. interests in the Uruguay Round trade negotiations. Textiles and apparel are among the few products developing countries can export to the United States, and are a major focus of these countries in the Uruguay Round. From the outset of the Uruguay Round, the developing countries have been suspicious that the negotiations would be a one-way street, intended to open their markets to goods and services of the United States without corresponding benefits for their own exports. Rollback legislation would confirm these suspicions and destroy U.S. credibility in these important negotiations, thereby strengthening the hand of those countries most opposed to trade liberalization for services and high-technology products and protection of U.S. intellectual property rights.

Any inclusion in CBI legislation of a textile rollback provision would guarantee the legislation's defeat. In addition to violating the MFA and U.S. bilateral textile agreements, a rollback provision would make it impossible for the United States to obtain the GATT waiver necessary to bring CBI legislation into conformity with U.S. international obligations. As the Subcommittee is aware, the GATT waiver was a problem for the original CBI legislation although that legislation contained no provisions reducing market access for third-country products. Moreover, the past Administration twice vetoed textile quota legislation and President Bush publicly has opposed any such legislation as well. The inclusion of global textile quota legislation as a provision of CBI legislation would not alter it objectionable character. Given the enormous harm to U.S. economic interests which such a provision would create, the Administration would be constrained to oppose any such legislation.

We recognize that congressional supporters of the Caribbean include many Congressmen supportive of the domestic textile industry. However, true friends of the Caribbean will oppose any attempt to kill the prospects for CBI enhancement legislation by holding it hostage to textile quota and rollback legislation. It is therefore essential that the subcommittee reject any such extraneous textile provision.

We appreciate the opportunity to comment on this legislation.

STATEMENT REGARDING SECTION 7 OF H.R. 1233

SUBMITTED BY THE U.S. CANE SUGAR REFINERS' ASSOCIATION
TO THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
MARCH 27, 1989

The following statement is being submitted by Nicholas Kominus, President of the U.S. Cane Sugar Refiners' Association, 1001 Connecticut Avenue, Washington, DC., on behalf of its members. Their names and addresses appear at the end of the statement.

The Subcommittee on Trade is to be commended for, once again, addressing the problems of the CBI nations. The goals of H.R. 1233, the Caribbean Basin Economic Recovery Expansion Act of 1989, are most admirable.

Unfortunately, we cannot support the sugar section of the bill as it is presently structured. Section 7 provides for a sugar import quota floor at 1989 levels for the CBI nations, and for the reallocation of quota deficits to these nations.

We believe if this section is adopted, we could find ourselves depending upon one small geographic region for all of our foreign sugar in the near future. If we are to meet the needs of consumers, we must have as much flexibility as possible in obtaining foreign raw sugar supplies. Quota preference for the CBI nations would also destroy the traditional trading patterns that have been developed over the years.

There are, of course, inequities in the assignment of the sugar import quotas, and we believe that this matter should be carefully re-examined by the Administration and the Congress when the farm bill comes up for reconsideration in 1990.

As our past position will substantiate, we are sensitive to the needs of the CBI nations and to the desires of the Subcommittee to address those needs. We believe, however, that there are less disruptive ways than quota preference to help these nations.

We spent the better part of the past year, urging Congress to adopt an export enhancement program that would assist the CBI nations.

Under that program, United States refiners would be permitted to import up to 290,000 tons of sugar from the CBI nations (and 110,000 tons from the Philippines) for refining here and re-export. CBI producers would receive the US price for the sugar, and USDA would provide a subsidy to cover the difference between that price and the price that would be received for the refined sugar on the world market.

Although the Congress did include the program in the 1988 continuing resolution, the Reagan Administration refused to implement it on the grounds that it did not have the legal authority to do so.

Subsequently, at the urging of the sugar industry, Congress included the export enhancement program in the 1989 agricultural appropriations bill. Once again, the Administration refused to implement the program on the grounds that funds were not available.

Our industry has expended a considerable amount of time and effort in attempting to help the CBI sugar industry. And we shall continue to pursue alternatives that we believe are compatible with the sugar program.

In this regard, we respectfully offer four alternative proposals as possible substitutes for the sugar section included in H.R. 1233.

First, we propose that a fee of 2 cents a pound be imposed on all imported "quota" sugar. The funds collected would be approximately $50 million. A similar amount could be used to fund the aforementioned export enhancement program. That sum is a little less than half the amount the Congress envisioned spending on the program and it would be of considerable benefit to the CBI nations.

Second, in order to bring the quantity closer to 400,000 tons, we propose that the export enhancement program be amended to spread the subsidy over a larger tonnage.

The price to be paid for the sugar could be reduced from the US price to a premium price above the world price of sugar. Thus, for the same outlay, close to double the quantity of sugar could be exported by the CBI countries, with their net return being considerably above the world price. This would permit more volume through their facilities while guaranteeing a premium price.

Under both proposals, the import fee would be imposed upon all quota holders, thereby avoiding any GATT complications. In addition, the proposals would permit the will of the Congress to be carried out by funding the re-export program.

Third, we propose that an import fee of 2 cents a pound be imposed on imported "quota" sugar, and that the CBI nations be exempted from paying this fee. This would stimulate imports of CBI sugar for re-export.

And fourth, we propose that the import duty on "quota" sugar be increased to its statutory maximum, and that the duty-free status of non-CBI nations be re-examined.

All of these proposals would be of immediate assistance to the CBI nations. They would provide the CBI with a market for an additional 300,000 to 400,000 tons of sugar. Shipments of this magnitude would permit the CBI nations to earn from $75 to $100 million a year and create new jobs. Adding 400,000 tons of demand to the world market would also exert upward pressure on the world price of raw sugar, which would mean even more dollars for the CBI on sales to that market.

Proposals one and two would appear to be the easiest to implement.

We recognize that these proposals will not be embraced by the non-CBI nations. They are offered, however, as a substitute for a proposal far more damaging to them; namely, Section 7 of H.R. 1233, and as such, these proposals should be much more readily acceptable to the non-CBI nations.

Thank you.

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STATEMENT OF THE UNITED STATES TUNA FOUNDATION
H.R. 1233
THE "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989

The United States Tuna Foundation (USTF) is a non-profit, mutual benefit corporation representing each of the elements of the United States tuna industry, including tuna vessel owners and operators, tuna vessel crew members, tuna processors, and cannery workers. USTF opposes the provision in H.R. 1233, the "Caribbean Basin Economic Recovery Expansion Act of 1989," which proposes to include canned tuna in the duty-free provisions of the Caribbean Basin Economic Recovery Act (CBERA).

When the CBERA was originally passed in 1982, canned tuna was excluded from the duty-free provisions of the legislation. The decision to exclude canned tuna was made after an exhaustive array of evidence was presented which showed that the domestic canned tuna industry would be severely impacted if canned tuna was included. Changes in the industry have made the tuna exclusion even more important to American Samoa and Puerto Rico today than in 1982.

In 1982, almost 59 percent of all tuna caught by U.S. fishermen was landed at ports in the continental United States. The vast majority of these landings were in California (94% - U.S. Department of Commerce, Fisheries of the United States, 1982). In 1987, only 16 percent of the landings were at ports in the continental United States (Fisheries of the United States, 1987). Today, almost all of the U.S.-caught tuna is landed at ports in American Samoa and Puerto Rico. U.S. production of canned tuna is now centered in these two island areas.

Tuna processing plants in Puerto Rico and American Samoa operate under a variety of U.S. government regulations administered by the Department of Agriculture, Food and Drug Administration, Department of Labor, Environmental Protection Agency and the Occupational Safety and Health Administration. Employees at the plants are supported by U.S. wage and hour laws and similar workplace standards. This full range of regulatory standards is not imposed by or on the CBERA eligible countries. If the United States believes that there is a need to continue to support this multitude of labor, environmental and safety regulations which currently impact U.S. industries, it must offer some protection from unaffected foreign competition.

The U.S. tuna industry is presently protected by a tariff on canned tuna in oil (35 percent ad valorem) and canned tuna in water (6 percent under quota and 12.5 percent over quota). However, the special category for canned tuna as established by H.R. 1233 will allow almost 14 million pounds or 826,000 cases of canned tuna to enter the United States duty-free.

It is our belief that any amount of duty-free trade will stimulate a shift of tuna production from the United States protectorates to CBERA countries. This will create an adverse effect on tuna related employment in Puerto Rico and American Samoa. The U.S. processing facilities in the island protectorates are located in areas which traditionally have experienced extremely high levels of unemployment. These areas depend heavily on the tuna industry for their private sector employment.

We support the U.S. policy to assist in upgrading the economies of our neighboring Caribbean Basin countries, but believe that it should not be done at the expense of the U.S. work force. The U.S. territories and commonwealths should be our first concern. If tuna processing is transferred to the Caribbean Basin countries the economies of American Samoa and Puerto Rico will surely decline.

We ask that the Subcommittee continue to preserve the tuna industry in American Samoa and Puerto Rico. Changes in the CBERA should not be made to allow duty-free entries of canned tuna from the Caribbean Basin countries.

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March 31, 1989

Mr. Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Leonard:

Enclosed please find six (6) copies of a statement prepared by Mr. Donald C. Nelthropp, on behalf of the Virgin Islands Rum Industries, Ltd. (VIRIL), relating to the Committee's request for comments on H.R. 1233, The Caribbean Basin Economic Recovery Expansion Act of 1989. VIRIL is the largest producer of rum manufactured in the U.S. Virgin Islands.

As is noted in the submission, low-priced imports of rum from Barbados are causing VIRIL injury for which it is unclear that redress is available under the current antidumping law. As you are aware, the Antidumping Act of 1921 excluded the Virgin Islands from the definition of the United States. Section 106 of the Trade Agreements Act of 1979 repealed the 1921 Act in its entirety. However, no new definition of United States was included in Title I of the 1979 Act nor was any added in the 1984 or 1988 amendments. While one might reasonably assume that the Congress intended to include the U.S. Virgin Islands and other U.S. insular possessions within the definition of "United States" by deleting the exclusions under the '21 Act, Congressional intent remains somewhat ambiguous. The U.S. International Trade Commission recently concluded that producers in the Virgin Islands are properly included within an industry in the United States. (See Generic Cephalexin Capsules from Canada: Preliminary Determination, USITC Publication 2143, December 1988, 731-TA-423). The

Robert J. Leonard, Esq.
March 31, 1989
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Department of Commerce has not yet issued any ruling on the issue. Consequently, we have attached to the statement proposed language that we believe would clarify the law and correct the problem. For the health of the industry, we believe it is imperative that such a clarification be made.

I would appreciate the opportunity to meet with you and your staff personally to further explore this matter. Thank you for your attention to this matter.

Sincerely,

Robert G. Kalik

Counsel for Virgin Island
Rum Industries, Ltd.

5030f

SUBMISSION TO THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES REGARDING H.R. 1233, THE "CARIBBEAN BASIN ECONOMIC RECOVERY EXPANSION ACT OF 1989"

Members of the Subcommittee:

My name is Donald C. Nelthropp. I am President of Virgin Islands Rum Industries, Ltd. (VIRIL), the producer of some 85% of the rum manufactured in the U.S. Virgin Islands.

Rum plays a significant role in the U.S. Virgin Islands economy. Not only is our rum distillery one of the largest manufacturing employers in this U.S. insular possession in the Caribbean, as well as an important tourist attraction on St. Croix, but excise tax rebates on rum account for some $20-30 million per year in revenues to the Territorial Government. Without these revenues for rum, the Treasury of the U.S. Virgin Islands would be without adequate funds for capital improvements and, in some years, even operating funds.

The great bulk of the rum which VIRIL makes and ships to the U.S. (which is some 90% of all our rum) is in the lowest price category -- under $2.00/proof gallon (or, in the new Harmonized Tariff Schedules, not over $0.53/liter). Rum in this price category, shipped to the U.S. in 5,000 gallon metal tanks, is considered essentially a fungible commodity by those who buy it -- rectifiers and bottlers for the owners of dozens of small or private labels. For these rums, even at the retail level, price is often the principal, if not the sole criterion on which purchase decisions are made. Unlike such higher priced brands as Bacardi, there is little brand loyalty among buyers of low-priced rum.

When the Caribbean Basin Economic Recovery Act (CBI I) was under consideration by the Congress in 1982 and 1983, we at VIRIL were very concerned over the potential impact on our sales in the U.S. if the tariff on rum were eliminated for all the countries of the Caribbean, many of whom were then, and remain, major rum producers. Those of you who were members of this Subcommittee in the 97th or 98th Congresses may well remember the spirited debate which took place with respect to removal of the tariff on rum. As a result of that debate, a compromise was struck which afforded rum producers in the Virgin Islands certain non-tariff accommodations, but opened the U.S. market fully to foreign rum producers in the Caribbean Basin countries.

It is fair to say that, since the CBI became effective in 1984, our worst fears of a flood of low-priced rum from beneficiary countries have not been realized. During that period, we, like other producers of distilled spirits, have suffered from the decline in U.S. consumption of alcoholic beverages and, because rum consumers tend to be younger than those of such products as scotch and whiskey, we have been particularly affected by the increase in consumption of such "trendy" competing products as wine coolers. Moreover, the CBI I tariff reductions made by the U.S. have not been matched by a corresponding opening of trade channels by CBI beneficiary countries. Quite the contrary, even on neighboring islands, such as St. Kitts, where VIRIL's rum used to enjoy significant sales, prohibitive tariffs and other taxes are now in place on rum from the U.S. Virgin Islands. Until recently, however, we had no reason to believe that the decline in our sales since 1984 in the mainland U.S. was attributable in significant degree to competition from rum producers in CBI beneficiary countries.

Unfortunately, I must now report to you that that situation is changing rapidly. In December, 1988 we learned that one of our competitors, a rum producer in Barbados, was offering rum to U.S. customers at prices as low as $1.07/proof gallon, plus freight -- prices not only far below those of its branded rums but nearly a third below the price we have been charging for similar unaged bulk rum. Within weeks of that initial information, some of our largest U.S. mainland customers advised us that, if we could not cut our prices to match those being offered by our Barbadian competitor, we would lose their business.

In the Virgin Islands, we have certain built-in cost disadvantages which make it difficult for us to further cut our prices. Among these are the applicability of labor safety and health requirements far more stringent than those of our Caribbean neighbors and a minimum wage which is higher than even that in the United States. Yet we are now faced with a new type of predatory price competition which is rapidly challenging our very capacity to survive as a viable economic entity. In the face of this difficult situation, VIRIL requests the cooperation and assistance of this Subcommittee to implement mechanisms to help us protect ourselves from this new threat. We do not seek to roll back the CBI, nor to reimpose the rum tariff generally on CBI beneficiaries. But we do need some means to respond to this new threat, or more than 250 years of continuous rum production in the Virgin Islands will fade into history.

As part of CBI I, the Congress clarified the right of producers located in U.S. insular possessions, such as the Virgin Islands, to protect themselves from injurious increased levels of imports from foreign competitors by initiating proceedings under Chapter I of Title II of the Trade Act of 1974. Such proceedings, however, are frequently cumbersome, time-consuming, and expensive to maintain and they do not ensure adequate relief. Accordingly, we are hoping that the Congress will include in CBI II a similar clarification, consistent with a recent International Trade Commission decision, with respect to the right of producers in U.S. insular possessions to initiate antidumping and countervailing duties investigations under the Tariff Act of 1930. Such a provision (the proposed text for which is attached) would make clear that we have the same right as other American flag manufacturers to deter such foreign predatory practices as dumping and export subsidization.

We are not asking the Congress to engage in protectionism. What we are asking is that the Congress make available to us, as fellow American citizens, the same tools and procedures already available to all other U.S. producers (including those in Puerto Rico) to rapidly address foreign trade practices which are internationally recognized in the GATT as unfair. This proposal is no more than what is necessary to assure a level playing field for the insular possessions as the United States moves to expand and make permanent the one-way tariff elimination embodied in the CBI. Many producers in the insular possessions, not just rum distillers, compete with products made in CBI beneficiary countries. It is only fair to give them the same remedies as other Americans if the tariff elimination of the CBI engenders unfair trade practices by the beneficiaries.

I thank the Subcommittee for this opportunity to present VIRIL's views and I commend to you our proposal for inclusion in H.R. 1233.

PROPOSED TEXT ON STANDING TO PETITION FOR IMPOSITION OF COUNTERVAILING AND ANTIDUMPING DUTIES

For purposes of Title VII of the Tariff Act of 1930, the terms "industry in the United States," "domestic producers" and "manufacturer, producer or wholesaler in the United States" shall include manufacturers and producers located in the United States insular possessions.

WGMA

March 31, 1989

Robert J. Leonard, Esq.
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives
Room 1102 Longworth House Office Building
Washington, D.C.

Dear Mr. Leonard: RE: H.R. 1233

On behalf of the Work Glove Manufacturers Association, I am enclosing six copies of the comments we are filing jointly with several other associations and labor unions who share our opposition to provisions of H.R. 1233, which would have the effect of eliminating the duty-free CBI exemption for leather-related work gloves.

WGMA believes that there is no justification for changing the exemption. Imports of work gloves have increased substantially since the exemption was first given, therefore, it is more important than ever that it remain in place. Moreover, the bill creates an artificial distinction between different types of work gloves. A vast number of our industry's products, which are made of textiles, will be covered under the textile provisions of the bill, but those work gloves that are made of other materials, particularly leather, will be left unprotected.

WGMA, therefore, urges the Subcommittee to leave the leather products exemption in the CBI intact.

Sincerely,

Joseph Cook

Joseph Cook
Executive Director

Enclosures

work glove manufacturers association
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